

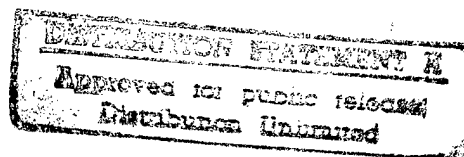
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CONTENTS

9 April 1991

INTERNATIONAL

GENERAL

Northern Territories, Gorbachev Visit Discussed	[GUOJI WENTI YANJIU No 39]	1
Kaifu Says Gorbachev Flexible on Island Dispute	[XINHUA]	7
USSR Denies Plan To Sell Islands to Japan	[XINHUA]	7

UNITED STATES

U.S. 'Taking Advantage' of Iraq Civil War	[Hong Kong TA KUNG PAO 23 Mar]	8
---	--------------------------------	---

NORTHEAST ASIA

Japanese War Compensation Reconsidered	[Hong Kong MING PAO YUE KAN No 302]	8
--	-------------------------------------	---

EAST EUROPE

Developments in Albania Viewed	[Hong Kong LIAOWANG OVERSEAS EDITION No 11]	11
--------------------------------	---	----

POLITICAL

Nature of 'Endowed,' Natural Human Rights Viewed	[Hong Kong MING PAO YUE KAN No 301]	13
Profile of Xing Benshi, Party School Official	[Hong Kong CHIUSHIH NIENTAI No 252]	14
Praise of Socialism in Soap Operas Urged	[Chengdu Radio]	16
New Quarterly To Promote Copyright Protection	[XINHUA]	17

ECONOMIC

NATIONAL AFFAIRS, POLICY

Policy Regarding Idle Resources Reviewed	[JINGJI YANJIU No 12]	18
Positive Role of Auditing in Economy Affirmed	[XINHUA]	24
New National Accounting System Planned	[CHINA DAILY 19 Feb]	24
Marketing Research Association Formed	[XINHUA]	25
Increases Reported in Total Retail Sales	[CHINA DAILY 18 Mar]	25

PROVINCIAL

Northeast Provinces Lag in Economic Development	[XINHUA]	26
Gansu Economy Improves 1986-1990	[Lanzhou Radio]	27
Jiangsu Counties Report Income Increases	[XINHUA]	27
Qinghai Governor Views Enterprise Rectification	[Xining Radio]	27
Qinghai Holds Meeting on Township, Town Enterprises	[Xining Radio]	28

FINANCE, BANKING

Commentator Assesses Financial Problems, Prospects	[ZHONGGUO JINRONG No 12]	28
Improved Professionalism of Tax Collectors Cited	[JINGJI RIBAO 14 Feb]	32
Issues in Tax, Profit Separation Development	[CAIJING YANJIU No 12]	35
Assessment of Vigorous Shenzhen Stock Market	[Hong Kong KAIFANG No 12]	39
Measures Proposed To Resolve Financial Difficulties	[JINGJI YANJIU No 12]	42
Finance Company Rectification Completed	[ZHONGGUO TONGXUN SHE]	46
More Foreign Banks Plan Offices in Shanghai	[XINHUA]	46

Record Urban Savings Deposits in Industrial Bank [XINHUA]	46
Loan Plans Revealed for Technical Renovation [CHINA DAILY 25 Mar]	47
Bank of China Plans Increase in Capital [XINHUA]	47

MINERAL RESOURCES

'More Rational Use' of Mineral Resources Urged [CHINA DAILY 19 Mar]	47
Regulations Adopted on Mineral Prospecting [XINHUA]	48
Report on Wafangdian Diamond Production [Hong Kong LIAOWANG OVERSEAS EDITION No 49]	48
Gold Production Rises 19.4 Percent [CHINA DAILY 23 Mar]	49
Largest Copper Mine To Double Capacity [XINHUA]	50
Mineral Shortages Expected in 'Near Future' [XINHUA]	50

INDUSTRY

1990 Chemical Industry Output Up 13.8 Percent [CHINA DAILY 16 Mar]	50
Huanghua Slated for Key Chemical Production Center [XINHUA]	51
Sichuan Promotes Machinery, Electronics Exports [XINHUA]	51
Shenyang High-Tech Development Zone Progresses Rapidly [XINHUA]	51
Upgraded Technology Advances Industrial Development [XINHUA]	52
Crude Steel Output Increases [XINHUA]	52
Petrochemical Industry Plans Project Expansion [XINHUA]	52

SMALL-SCALE ENTERPRISES

Assessment of Township Enterprises in 1990 [Hong Kong LIAOWANG OVERSEAS EDITION No 49]	53
---	----

FOREIGN TRADE, INVESTMENT

More Caution Urged in Overseas Borrowing [CAIJING WENTI YANJIU No 12]	55
Xinjiang Considers Legal Factors in 'Opening Up' [XINJIANG SHEHUI KEXUE No 6]	60

TRANSPORTATION

Five New Air Routes To Open in Inner Mongolia [XINHUA]	65
Jiangsu Constructs Basic Transportation Facilities [XINHUA]	66

AGRICULTURE

Status, Problems in Farm Machinery Exports Viewed [ZHONGGUO NONGJIHUA BAO 30 Jan]	66
Rural Mechanization Goals for Eighth Plan [ZHONGGUO NONGJIHUA BAO 5 Jan]	68
Farm Machinery Targets for Eighth Five-Year Plan [ZHONGGUO NONGJIHUA BAO 9 Jan]	69
Expenditure of Rural Households in 1990 [CEI Database]	70
1990 Cash Income of Rural Households [CEI Database]	70
Economic Power of Rural Households Increases [XINHUA]	70
Eighth Five-Year Plan Rural Reforms Outlined [Hong Kong TANGTAI No 63]	71
February Exports of Cereals, Oils, Food [CEI Database]	74
Beijing Overfulfills Grain Purchase Task [BEIJING RIBAO 4 Mar]	75
Fujian Livestock Industry Goals [ZIRAN ZIYUAN No 1]	75
Hebei Cuts Supply of Low-Priced Grain, Edible Oil [Wuhan Radio]	75
Jilin Issues IOU's for Grain [NONGMIN RIBAO 23 Jan]	75
Fungal Wheat Diseases in Zhejiang [ZHIWU BAOHU No 6]	76

SOCIAL

Remedies Proposed for 'Severe' Yunnan Drug Abuse [SHEHUI No 72]	77
Overview of Students Studying Abroad [Hong Kong MING PAO YUE KAN No 300]	79
Phenomenon of 'Henpecking' Analyzed [SHEHUI No 72]	80

MILITARY, PUBLIC SECURITY

Mainland-Israel Military Relations [Taipei CHUNG KUO TA LU YAN CHIU No 7]	84
Tao Siju Appointed New Public Security Chief [Hong Kong KAIFANG No 1]	93
'Secrets' of Chemical Defense Force Revealed [Hong Kong KUANG CHIAO CHING No 220]	95
Gulf War Highlights Importance of Modern Weaponry [Hong Kong TANGTAI No 62]	98
Kunming Border Inspection Officers Refuse Bribes [YUNNAN RIBAO 5 Jan]	99
Military CPC Committee Observes 'Five Nots' [YUNNAN RIBAO 10 Jan]	99
Chengdu MR Sponsors Training Classes in Yunnan [YUNNAN RIBAO 11 Jan]	100
PLA Unit Helps Improve Kunming Villages, School [YUNNAN RIBAO 12 Jan]	100

REGIONAL

EAST REGION

Impact of Humanism, Anticulture Trend on Students [SHEHUI KEXUE No 12]	102
Poverty Relief in Fujian [Hong Kong KUANG CHIAO CHING No 219]	105
Fujian Province Winning Battle Against Smugglers [XINHUA]	106
Zhejiang Party Committee Hosts Religious Work Forum [ZHEJIANG RIBAO 13 Feb]	106

PRC MEDIA ON TAIWAN AFFAIRS

Vice Minister Optimistic on Coal Trade With Taiwan [Hong Kong LIAOWANG OVERSEAS EDITION No 2]	108
--	-----

TAIWAN

General Sun Liren Eulogized [Hong Kong CHIUSHIH NIENTAI No 1]	112
Uncertainty Prevails About Economic Recovery [Hong Kong CHING CHI TAO PAO No 1-2]	114
Modification of Foreign Exchange Policy Proposed [CNA]	116
New High Expected in Foreign Exchange Reserves [CNA]	116
Residents Urged To Invest in Brazil [CNA]	116
Trade Delegation To Visit Middle East in April [CNA]	117
Trade Delegation To Visit Northern Europe [CNA]	117
Second Group of Legal Thai Workers Scheduled [CNA]	117
Minister Says No Ceiling on Mainland Trade [CNA]	117
March Exports Expected To Rise [CNA]	118
City Bank of Taipei To Open New York Branch [CNA]	118
Population Growth Slows; Density Still 2d Highest [CNA]	118

HONG KONG, MACAO

Beijing Seen Pressuring Legislative Politics [PAI HSING No 229]	119
Mainland 'Interference' in Politics Intensifies [PAI HSING No 230]	121
Japan Remains Major Investor in Manufacturing Firms [XINHUA]	124
Hong Kong-Shenzhen Industrial Products Fair Held [XINHUA]	125
Finance Secretary Foresees Faster Growth [XINHUA]	125

GENERAL

Northern Territories, Gorbachev Visit Discussed

91P30117A Beijing GUOJI WENTI YANJIU
[INTERNATIONAL STUDIES] in Chinese No 39,
13 Jan 91 pp 26-32

[Article by Zhang Dalin (1728 1129 2651): "New Developments in Soviet-Japan Relations"—first two paragraphs are source-supplied abstract]

[Text] *In the past year, Soviet-Japanese relations have undergone profound changes; both the Japanese and the Soviets are actively seeking ways to improve and develop bilateral relations. The Japanese aims are to improve their strategic position, support Gorbachev's "reform," and expand markets and sources of primary goods. The Soviet aims are to take advantage of U.S.-Japanese difficulties and obtain Japanese economic aid.*

Soviet-Japanese relations include political, economic, and military issues, the heart of which is the issue of the northern territories. It is predicted that during Gorbachev's trip to Japan, both sides will try to come to terms on this issue.

During the middle part of April 1991, the season when the cherry blossoms open on the Japanese archipelago, Soviet President Gorbachev will visit Japan. This will be the first time that a Soviet leader at the highest level has visited Japan since the 1917 October Revolution. Soviet-Japanese diplomatic activity surrounding this trip has been unusually brisk. From 4 to 7 September 1990, Soviet Foreign Minister Shevardnadze went to Beijing to participate in the Soviet-Japanese 10th regularly scheduled foreign minister consultations in order to make preparations for the Gorbachev visit to Japan. After the consultations were over they released a joint statement saying, "Both sides unanimously believe that the visit of the Soviet president to Japan will be a turning point in Soviet-Japanese relations and will accelerate a basic improvement in relations between the two countries."¹ This shows that both the Soviets and Japanese place the greatest importance on Gorbachev's visit and plan to use this to improve and develop bilateral relations. Thus, people naturally want to gain an understanding of any changes which have taken place in Soviet-Japanese relations over the past year—if there have been changes, what do they explain, why do the Soviets and Japanese want to improve bilateral relations, and what are the prospects for Soviet-Japanese relations. This article will expounds on these points.

Changes in Soviet-Japanese Relations in the Past Year

Since the beginning of 1990, relations between the Soviet Union and Japan have changed very quickly in comparison with the past; not only has there begun to be improvement in the overall atmosphere, relations have also taken on a new direction.

A. Governmental Interaction Has Been Very Frequent

The governments of the two countries have shown unusual enthusiasm in improving bilateral relations; government VIP's have made visits and contact has been constant. The most important reciprocal visits have been: January, Yeltsin, deputy to the Supreme Soviet, visited Japan, and had a meeting with Prime Minister Kaifu; April, Soviet Vice Foreign Minister Petrovskiy visited Japan, and held talks with Foreign Minister Nakayama; May, the Vice Chairman of the Soviet Council of Ministers Biryukova held talks with Prime Minister Kaifu and Foreign Minister Nakayama; June, Soviet Vice Foreign Minister Rogachev visited Japan; July, regular Soviet and Japanese vice-foreign ministerial consultations were held in Moscow; July, Japanese Speaker of the Lower House Sakurachi led a delegation to the Soviet Union, and met with Gorbachev and Luk'yanov; September, member of the Soviet Presidential Council Primakov visited Japan; September, Soviet Foreign Minister Shevardnadze visited Japan, met with Prime Minister Kaifu and held talks with Foreign Minister Nakayama; October Vice Chairman of the USSR Supreme Soviet Ba-er-jin [1572 1422 6855] visited Japan; November, Chairman of the USSR Supreme Soviet Luk'yanov went to Japan to take part in the coronation ceremony of the Japanese emperor. Towards the end of the year, visits from the two countries included the visit to Japan by member of the Soviet Presidential Council Yakovlev and Japanese Foreign Minister Nakayama's visit to the Soviet Union. There are 12 visits listed above, approximately one per month. Such a high frequency is unheard of.

In addition, local governments of the countries also started to have formal contacts. In August the Governor of Hokkaido Yokomichi visited the Soviet Union and made a declaration of friendship between Hokkaido and the Russian Republic.

B. Scope of Bilateral Relations Has Expanded

Aside from the development of frequent contacts between the governments of the two countries, the two countries have also expanded contacts between the parties in power and contacts between the people; there have been contacts through many channels.

First, the parties in power of the two countries, in coordination with government activities, have promoted the development of relations between the two countries and have sent important members on visits. The principle activities have been: January, former Japanese LDP [Liberal Democratic Party] Secretary General Abe led a delegation to the Soviet Union and held talks with Gorbachev on the territorial issue and the issue of expanding contacts, opening up a "party to party" political dialogue; September, former Secretary General of the Cabinet Mibuchi led an LDP delegation to visit the Soviet Union; October, Soviet CPSU Politburo member Yanayev visited Japan.

Second, there have been new developments in contacts between the peoples. The Soviet Union for the first time allowed Japanese to go to Etorofu for tomb sweeping. The Japanese LDP decided to invite 1,000 Soviet youths to visit Japan within three years. This large-scale, organized youth visit is a first between the Soviet Union and Japan. Aside from this, scholars from the two countries have held many special conferences on Soviet-Japanese relations.

C. Various Concrete Plans for Improving Relations Have Been Brought Up

In order to prepare for Gorbachev's visit and to welcome the new turning point in Soviet-Japanese relations, government VIP's of both countries have exchanged all kinds of suggestions and plans during their talks. The most important are as follows.

The Soviet side raised the following points:

On 16 January 1990, during an interview with reporters in Beijing, Yeltsin, deputy to the Supreme Soviet, brought up a five-stage tentative plan for resolving the northern territories issue. Stage 1, the Soviets acknowledge the existence of a territorial problem. Stage 2, make the northern territories a "free enterprise district." Stage 3, carry out demilitarization. Stage 4, conclude a Soviet-Japanese peace treaty. Stage 1 through stage 4 would require approximately 15-20 years. Stage 5 is for the next generation of leaders to settle the question of returning the four islands to Japan.

From 4 to 7 September 1990, during the foreign minister consultations in Beijing, Shevardnadze made an eight-point proposal for establishing a relationship of trust: 1) Hold political and military talks; 2) mutual reporting of large-scale military maneuvers; 3) prenotification of waters to be closed for firing exercises; 4) exchange observers to supervise military maneuvers; 5) establish exchanges between the Soviet Ministry of Defense and the Japan Defense Agency; 6) reciprocal visits of fleet and armored unit representatives; 7) reach an agreement on forestalling naval accidents; 8) reciprocal visits of military officials.

The Japanese side raised the following points:

On 13 January 1990 in Moscow, former LDP General Secretary Abe made an eight-point proposal for developing Soviet-Japanese relations: 1) In coordination with Soviet reforms, the Japanese provide the Soviets with know-how and experts on business management and improving efficiency; 2) undertake personnel cooperation in the realm of economics; the Soviets send an economic investigative group to Japan to make inspections; 3) hold exhibitions in major cities of the other country; 4) organize youth exchanges; Japan to invite 1,000 Soviet youths to visit Japan; 5) Japan to promote the Japanese language in the Soviet Union; develop academic exchanges; 6) hold a Japanese cultural week in the Soviet Union; 7) draw up a bilateral fishing agreement; promote cooperation in the fishing industries; 8)

allow Japanese to go to Etorofu for tomb sweeping; promote humanitarian cooperation.

On 31 July 1990 in Moscow, Ministry of Foreign Affairs Councillor Owada brought up 10 points for increasing contacts: 1) Japan provide technology to the Soviet Union, which is carrying forward reform; 2) cooperate in business, sign trade loans and new coastal trade agreements; 3) provide assistance to victims of the Chernobyl accident; 4) promote the stable development of the fishing industry in the two countries; 5) conclude agreements on the issues of environmental protection and the peaceful use of space; 6) conclude new cultural agreements to expand cultural exchanges; 7) promote humanitarian cooperation so that the Japanese can go to the northern territories for tomb sweeping; 8) expand personnel exchanges; 9) stipulate embassy activities and staff for both sides; 10) draw up documents for Soviet-Japanese consultations.

The above plans, brought up in rapid succession and unprecedented in Soviet-Japanese relations, are sufficient to show that bilateral relations have been and are continuing to change.

In sum, over the past year, there have been clear changes in Soviet-Japanese relations. From these changes, we can see that both the Soviets and the Japanese are actively seeking ways to improve and develop bilateral relations.

Signs of Relaxation in Two Countries' Relations

In former Soviet-Japanese relations, it could be said that there were political, economic, and military issues urgently awaiting resolution. Politically there was the issue of the northern territories and concluding a peace treaty; economically there was the issue of expanding cooperation; militarily there was the issue of establishing an Asian-Pacific security system.

Taken as a whole, the attitude both sides adopted on the above-mentioned issues were: The Japanese advocated a one-time return of the four northern islands and the principle of political and economic inseparability, which is to say that 1) the four northern islands must be returned together; 2) settling the territorial issue is a precondition of concluding a peace treaty; 3) progress on the territorial issue would proceed in step with developments in economic relations and security issues. This is the so-called "balanced expansion theory." The Soviet Union maintained that there was no territorial issue existing between Japan and the Soviet Union, the Japanese should steer clear of territorial issues in concluding a peace treaty with the Soviet Union, and moreover should play an active part in Soviet-Japanese economic cooperation and an Asian-Pacific collective security system. From this we can see that the northern territories issue is the focus of the Soviet-Japanese problem and is the key to all the other problems.

Up until now, the governments of the two countries have not abandoned the above positions in a public forum. However, if you make a detailed analysis of the official

documents and statements of the leadership of both sides, it is easy to see that on almost all issues both sides are clearly showing signs of relaxation.

1. On the Northern Territories and Concluding a Peace Treaty

The issue of the northern territories. Looking at it from the Japanese side, Prime Minister Kaifu, during his meeting in Beijing with Soviet Foreign Minister Shevardnadze on 6 September 1990, said, "I hope that when President Gorbachev visits Japan we can seriously resolve the issue of returning the four northern islands."² The fact that he did not use the word "at one time" affords food for thought. It could be understood as Japan making allowances for the Soviet domestic situation and hinting at a return of the four islands in stages. On 23 April 1990, former deputy Prime Minister Shin Kanemaru, who has a great deal of influence on the Kaifu regime, made a statement in which he openly advocated first returning two islands and that it would be okay to purchase the remaining two islands.

Looking at it from the Soviet side, on 31 August 1991 during a meeting with reporters in Moscow, Soviet President Gorbachev said that he was willing to discuss "any question" that the Japanese side raised during his visit to Beijing,³ hinting that they could discuss the northern territories question. On 7 September 1990 during a meeting with reporters in Tokyo, Foreign Minister Shevardnadze cited territorial issues such as Soviet approval of East and West German unification and of designation of the Chinese border, saying, "We are holding talks with Japan on concluding a peace treaty. Moreover the correct position (on the northern territories) could be determined based on negotiations and reasonable methods."⁴ This shows that linking the northern territories issue with determining the borders is a possibility. Some experts in Soviet-Japanese relations believe that this could mean that the Soviets plan to return to their 1956 stand of first returning two islands and having the remaining two islands define the national boundaries.

The issue of concluding a peace treaty. For the purposes of concluding a peace treaty, both Japan and the Soviet Union have established a working group for concluding a peace treaty which the vice foreign ministers of both sides are participating in and which exclusively holds consultations on matters pertaining to concluding a peace treaty. This group has held five meetings. At the first four meetings, the Japanese side used the excuse that the northern territories issue had not yet been resolved to adopt a very severe attitude toward the Soviets and no agreement was reached. From 30 July to 1 August 1990, the group held a fifth talk in Moscow. Japan changed its attitude of uniform opposition, and the two sides came to the following understanding of the basic nature of a peace treaty: the contents of the peace treaty must be acceptable to both sides, it can not harm either country's separate security interests, conclude a

peace treaty putting an end to the theoretical state of war, strengthen friendly cooperation, and open up a future of friendly relations.

2. On Economic Cooperation

On the subject of economic cooperation, Japan has all along maintained the principle that no economic aid will be given as long as the issue of the northern territories remains unresolved. However, on 14 November 1990 the Japanese Government decided to give the victims of the Chernobyl accident 2 billion yen (approximately \$15 million) in free economic aid. Although the amount of economic aid was not large, it was after all the beginning of free economic aid to the Soviet Union. Personnel from the Japanese Ministry of Foreign Affairs believe that this was "Japan's first breakthrough in an economic policy change toward the Soviet Union."

3. On Establishing an Asian-Pacific Region Security Guarantee System

As early as 1969 the Soviet Union brought up the idea of establishing an Asian-Pacific region security guarantee system. In order to protect the system whose basic axis was the Japan-U.S. Security Pact, Japan never made any response. In December 1989 Japan changed its attitude. The report "The International Situation and Japanese Foreign Policy" drafted by the Ministry of Foreign Affairs said, regarding the suggestion by the Soviets on holding talks on the guarantee of political security, they should give it the most "careful treatment." Not only this, the Japanese side, at the prompting of Prime Minister Kaifu, deleted from the 1990 edition of the "Defense White Paper" the terminology that the Soviet Army in the Far East was a "potential threat" to Japan.

The Reason for Changes in Soviet-Japanese Relations

Since the U.S.-Soviet summit talks held in Malta in December 1989, the world has entered a period of transition from bipolar confrontation based on the Yalta system to multipolarization. All the forces of the world are beginning to realign; all the countries of the world are readjusting their foreign policy, looking for an international position advantageous to themselves. In accordance with the requirements of their respective interests, Japan and the Soviet Union have both engendered the strong hope of improving bilateral relations.

Why does Japan wish to improve relations with the Soviet Union? In general, there are the following reasons:

1. Improve Their Own Strategic Position

During the U.S.-Soviet confrontation which lasted 40 years after the war, Japan took the side of the United States, formed a military alliance with the United States, and had a common approach toward the Soviet Union. Thus, Soviet-Japanese relations were always at a stalemate. Now that there have been big changes in the international situation, East-West relations have relaxed

and there is U.S.-Soviet detente. If Japan were to insist on a one-time return of the four northern islands and maintain a policy toward the Soviet Union of not separating politics and economics, and if the Soviet Union, for internal reasons, could not make important concessions on the territorial issue, then the issue of the northern territories would just sit there untouched and the Soviet-Japanese stalemate would have to continue. In the rapidly changing world trends, if Soviet-Japanese relations were to stagnate, Japan would land itself in a strategically passive position. Problems are currently developing between Japan and the United States, and U.S. military forces abroad will ultimately be reduced. From long-term strategic considerations, the Soviet Union might become a potential ally for Japan. In order to adapt to the trend and prevent isolation, Japan must adopt flexible policies and improve relations with the Soviet Union.

2. Supporting Gorbachev's "Reform"

On 15 March 1990 Foreign Minister Nakayama made a statement on Gorbachev being elected Soviet president. He said that implementing a presidential system in the Soviet Union "is an important choice made by the Soviet people to promote reform as far as political reform is concerned." He "hoped that the Soviet Union, under the leadership of President Gorbachev, could overcome the economic difficulties and racial problems currently facing it and, moreover, could implement democratization, liberalization, and a market economy in order to develop and fix the correct direction of reforms."⁵ From this statement by Foreign Minister Nakayama, Japan is obviously supporting Gorbachev's "reforms." Not only that, the Japanese Government also believes that the unsettled question between the Soviet Union and Japan of the northern territories can be resolved only while Gorbachev is in office.

3. Expand Markets and Sources of Raw Materials

In recent years, there has been an increasing trend toward world economic regionalism; a big European market and a North American economic bloc will soon be formed. Japan is also actively planning some kind of economic bloc in the Asian-Pacific region, in which an important target for an economic bloc encircling the Sea of Japan is the Soviet Union. Because of the radical changes in the Middle East, the price of oil has risen. In order to expand its sources of petrochemical raw materials, Japan is eager to develop Siberia. In addition, exporting cars and household appliances to the Soviet Union is also very attractive to Japan.

From the point of view of the Soviet Union, improving relations with Japan may proceed from the following reasons:

1. Make Use of Problems Between Japan and the United States

U.S.-Soviet relations are currently going from confrontation to detente. However, problems between the

United States and Japan have not disappeared, especially with the continued existence of U.S.-Soviet military confrontation in East Asia. Japan is a major ally of the United States in Asia; major U.S. military bases in East Asia are in Japan; and Japan still bears the expense of U.S. troops stationed in Japan. On the other hand, problems between the United States and Japan are increasing; economic friction is occurring all the time; and more and more Americans believe that Japan's economic threat is already greater than the Soviet Union's military threat. In these circumstances, if the Soviet Union can improve relations with Japan, it will improve its strategic position in the Asian-Pacific region.

2. Obtain Economic Aid From Japan

The Soviet Union is facing big problems economically—there is a shortage of daily necessities, the people are not satisfied and hope to get Western economic aid. Japan is the world's largest creditor nation and investor nation. The Soviet Union believes that if it can end its political opposition with Japan, conclude an economic cooperation treaty, and obtain large-scale support from Japan, this will have a big effect on stabilizing the domestic situation and tide over the economic crisis.

It is very clear that both Japan's and the Soviet Union's attempts to improve bilateral relations arise from the demands of their own respective interests. Moreover Gorbachev's visit to Japan is the "third peak" in postwar Soviet-Japanese relations following the 1956 Joint Soviet-Japanese Declaration and the 1973 Tanaka-Brezhnev talks. Given the diplomatic situation of these two countries, what efforts they make during this peak is worthy of world attention.

Prospects for Soviet-Japanese Relations

Can the many Soviet-Japanese bilateral issues such as concluding a peace treaty, which centers on the northern territories, economic cooperation, and establishing an Asian-Pacific security system be resolved in the end? When can they be resolved? How can they be resolved? In a word, what are the prospects for Soviet-Japanese relations? Many politicians, scholars, and journalists throughout the world are making all kinds of deductions and predictions. Just speaking of the northern territories, we can conclude there are no more than three predictions: the possibility of return, the impossibility of return, and mutual concessions.

1. The Theory of the Possibility of Return

A large number of people hold this point of view; its representative is former U.S. Secretary of State Kissinger. When he visited Japan in September 1990 he said that during or before Gorbachev's visit to Japan, they would reach an agreement to return the northern territories to Japan. He believes that, when the Soviets are negotiating, they often start from an extreme position

but then withdraw the requests they have raised. Kissenger infers that the northern territories will be recovered by Japan by "some sort of special economic treatment." Kissenger says his prediction is "intuition." People concerned believe that Kissenger maintains regular contact with high-level leaders in both the United States and the Soviet Union. So the "intuition" which sums up these feelings is worth paying attention to.

In addition, some proponents of the theory of the possibility of return believe that money could be exchanged for the territories. One of the important aims of Gorbachev's visit to Japan is to sign an economic cooperation agreement with Japan for Japan to give the Soviet Union financial aid and commodity loans. Judging from the present stage, the Soviet Union's final plans concerning the territorial issue have not yet been set. If Japan hangs on to the end, it is not impossible that Gorbachev will be forced to bring with him on his visit to Japan a plan to return the northern territories.

They say that it is still necessary to watch for the possibility of radical internal changes in the Soviet Union. In the spring of 1991, if the Soviet economy continues to worsen, if there is a serious shortage of daily necessities, and if the people become extremely dissatisfied, there will be no other solution than getting a huge amount of loans and commodities from abroad. At that time, if Japan can provide several billion dollars or even 10 billion or so dollars in financial assistance, perhaps Gorbachev will make the decision to return the four islands. After Gorbachev received 5 billion marks (approximately \$3 billion) from West Germany, he agreed to a unified Germany remaining in NATO and withdrew troops from East Germany. This proves that the original stand of the Soviet Union is not immutable. Now is a good chance for Japan to exchange money for territories, to send a list of gifts.

2. The Theory of the Impossibility of Return

People who hold this point of view believe that Gorbachev can not help but consider the chain reaction of domestic racial problems, the issue of European countries' borders, as well as the Soviet military boycott. On the territorial issue, it would be very difficult to make concessions to Japan. If he must make concessions on the territorial issue, it would mean putting his political career on the line.

They say that, in the Soviet Union of today, the president cannot make decisions on everything. The Soviet Union is formulating a new federal treaty to redefine the jurisdiction of the center and the republics. The Russian Republic has already taken a step by putting through a declaration of national sovereignty. This declaration stipulates that the Russian Republic has jurisdiction over territory and resources, and any changes in territory must be go through a public referendum. recently Mikhail Jie-lie-shi-ke [2212 0441 0087 4430], first secretary of the Southern Kuril Regional Communist Party Committee and chairman of the Regional Executive

Committee said, "Moscow and Tokyo have ignored the will of the residents in deciding the fate of this area. This kind of overbearing diplomacy is intolerable." This regional leader had told reporters who had interviewed him previously that in January 1990 they had taken a public opinion poll of 3,000 of the 170,000 islanders. Of those polled, 90 percent opposed returning the territory to Japan. After a reporter from the Japanese TOYO KEIZAI SHIMBUN visited the four islands, he drew the conclusion that the central government cannot make a decision on the issue of returning the northern territories. The right to decide is held by the residents, who had lived there for more than 40 years.

Some say that historically the issue of the northern territories has arisen from the allied policies of the Soviet Union and the United States. When World War II was concluding, in order to get the Soviet Union to attack Japan with its troops, the United States approved the Soviet occupation of the Chishima Archipelago, including Etorofu and Kunashiri, at the 1945 Yalta and Potsdam Conferences. For a relatively long time after the war, the United States continued to support the Soviet position, and even added a clause to the San Francisco Treaty that Japan give up its rights to the Chishima Archipelago. At the time, if the United States had approved Japan's request concerning the return of the northern territories, it would have had to have approved Adenauer's request for the territories east of the Oder-Neisse River, return Poland's territory to West Germany, and return Soviet territory to Poland. This would have created chaos in Europe. Up to the present day, the United States and all the European countries have had to respect the territorial borders drawn in Europe after the war. Thus, the Soviet Union cannot risk universal condemnation for the sake of the northern territories issue, nor can it set a precedent it might later regret.

3. The Theory of Mutual Concessions

Those that hold this point of view stand either on the Soviet side and take Soviet interests into consideration, or they are on the Japanese side and are planning on behalf of Japan. The measures suggested include a three-stage or five-stage resolution, return of two or three of the islands, common supervision, or international trusteeship, and so on, and so forth. Despite this, they all believe that: 1) In the resolution of an international dispute, both sides must make mutual concessions; unilateral concession is not possible. In 1956 Japan and the Soviet Union made a joint announcement in which the Soviet Union made concessions, promising to return two islands. However, Japan maintained that all four islands must be returned at one time. Thirty-four years have passed and Japan still hasn't gotten one island. 2) Both sides must understand each other; it is unfortunate not to understand the other. The Soviet Union must change its attitude as a winner of the war and be sincerely reconciled with Japan. A concrete suggestion is that during Gorbachev's visit, he apologize for the misery brought to the Japanese people detained in Siberia after the conclusion of the war. This would decrease the distrust the

Japanese hold for the Soviets and would reap benefits. The Japanese must modify the atmosphere of distrust toward the Soviets and change their view of the Soviets as the "foe." The Soviets are prepared to reduce armaments on the four islands; the Japanese should reduce troops in Hokkaido. Soviet economic reform requires foreign economic assistance; Japan should look for a means of resolving the northern territories issue through expanding cooperation with the Soviet Union in the economic sphere. In sum, the resolution of the territorial issue requires a change of thinking from both sides. In the next six months, whoever can change their thinking holds the key to success. 3) Relations between countries cannot be based on emotion, they must be established on a rational foundation and conducted in accordance with national interests. In the past the Soviet Union has made concessions to Japan in order to improve relations with Japan. Now that the Soviet Union has established friendly relations with the European countries it does not pay enough attention to Japan, relatively speaking. When the Soviet Union formulates its foreign policy, it should be careful to keep its options open. Japan cannot always be kept in a blind alley, in the midst of unending controversy. It should take heed of its true national interests, be more flexible, and give itself more options.

From now until Gorbachev's visit in the middle of April, there are still four months. During this time, Japan and the Soviet Union will make contact many times and do fierce and complex bargaining. It is difficult at this time to make a precise determination of what concrete plans will be agreed upon in the end.

Judging from the current situation, the Soviet-Japanese talks, at the core of which are the territorial issue and the peace treaty, coexist with complex internal situations in both countries. Within the Soviet Union, Gorbachev's central government power is opposed to Yeltsin's of the Russian Republic. It is said that the Soviet Government is internally studying a plan for the return of the islands of Habomai and Shikotan. Moreover, Yeltsin has suggested a resolution in stages and does not agree with an immediate return of the northern territories. Within Japan there are differences between the Foreign Affairs Office and the bureaucracy of the LDP. The Foreign Affairs Office supports a one-time return of the four islands and the principle of not separating politics and economics. However, former Vice Prime Minister Shin Kanemaru and LDP General Secretary Ichiro Ozawa advocate mutual concessions from Japan and the Soviet Union. Kanemaru even agrees with first returning two of the islands. Under these conditions, the possibility of the Soviet Union immediately returning all four islands is slim, but Japan also cannot accept marking time with no progress made at all on the territorial issue. It looks as though both sides will only accept a resolution in stages, with the initial return of Habomai and Shikotan, or by looking for compromise through the demilitarization of all four islands, coexistence, or codevelopment.

From the Soviet point of view, Gorbachev, as the first Soviet head of state to visit Japan, should give away the

gifts he brings and not go so far as to disappoint the host. He will be unjustified if he does not make definite and necessary concessions on the territorial issue, which is of greatest concern to the Japanese people. If he does not do this he will not be able to get Japanese economic aid, nor would it be in keeping with the Soviet Union's strategic interests. However, the Soviet president of today can not make decisions on all things; on the issue of the northern territories he must consider the opinions of the Soviet leaders and Sakhalin authorities. The core of Yeltsin's five-stage proposal is that he does not agree with the immediate return of the four territories. Authorities on Sakhalin only agree to codevelopment of the four islands and do not agree with an immediate change of territorial sovereignty. These opposing opinions are difficult to bridge for Gorbachev, whose political position is weakening. Therefore, Gorbachev is unable to accept the plan proposed by Japan for a one-time return of the four northern islands.

From Japan's point of view, the territorial issue is one of racial interest. No matter who is in power, they will dispute the territorial issue with the Soviet Union, otherwise they would have to step down. However, the world situation has already undergone big changes; the time has passed for a policy toward the Soviet Union which does not separate politics from economics. In order to realize the strategic goal of going from an economic power to a political and military power, they must abandon outdated principles. Kanemaru, a powerful figure in the LDP, and other politicians have already brought up the ideas of first returning two islands and purchasing the remaining two islands. Therefore, it is possible that the Japanese Government will accept the Soviet method of a resolution in stages.

A noteworthy question at this time is what will be the effects once the Japanese and Soviet reach an agreement? Some people predict an impact on the following:

1. An assault on the U.S.-Japanese security system. The Japan-U.S. Security Pact has always had two functions: One is to protect Japan and the other is to restrain Japan. With the changes in the world situation, the function of protecting Japan is lessening and the function of restraining Japan is increasing. In the current situation, even if Japan and the Soviet Union reach an agreement, Japan will not immediately abrogate the Japan-U.S. Security Pact. However, Japan will certainly decrease its reliance on the United States and implement a more independent policy.

2. The function of the Soviet Union in Asia. Although the Soviet Union is a European country, it has all along wanted to play a role in Asia and has brought up an "Asian collective security plan." Recently it has also brought up establishment of an "Asian-Pacific cooperation system" with Japan, the United States, and the Soviet Union at the center. However, Japan has always opposed the Soviet Union playing a role in Asia. If Japan and the Soviet Union reach an agreement, Japan may change this and support the Soviet Union playing a role

in Asia. An "Asian-Pacific cooperative system," jointly established by Japan, the United States, and the Soviet Union might even appear. The countermeasures and plans other Asian countries might take in response must be of interest to everyone.

3. Impact on the direction of Japanese investment. Currently Japan and the Soviet Union only have 30 joint-venture enterprises. Japan has only \$800 million or so invested in the Soviet Union. However, once there is a change in Soviet-Japanese relations, Japan's investment in the Soviet Union will increase dramatically. In recent years parties in and out of power in Japan have actively endorsed the "Sea of Japan Plan," which mainly involves using Japanese funds and technology to develop natural resources in Siberia. Moreover, they proposed "making the 21st century the century of the Sea of Japan." From this it is not difficult to spy out Japan's next investment trend.

Footnotes

1. Tokyo KYODO, 7 September 1990, in Japanese.
2. Tokyo ASAHI SHIMBUN, 7 September 1990.
3. XINHUA News Agency, XINWEN GAO, 5 September 1990.
4. Tokyo KYODO, 7 September 1990, in Japanese.
5. Tokyo JIJI, 15 March 1990, in Japanese.

Kaifu Says Gorbachev Flexible on Island Dispute

OW2603195391 Beijing XINHUA in English
0914 GMT 26 Mar 91

[Text] Tokyo, March 26 (XINHUA)—Japanese Prime Minister Toshiki Kaifu said today that Soviet President Mikhail Gorbachev appears to have taken a more flexible stance toward the territorial dispute between Moscow and Tokyo.

Asked about Gorbachev's talks in Moscow on Monday with Secretary General of Japan's ruling Liberal Democratic Party Ichiro Ozawa, Kaifu said that the Soviet president seemed to be using a language slightly different from before.

Referring to Gorbachev's earlier remark that he was willing to discuss "all issues" with Japan, Kaifu told reporters that he "interpreted this as a positive sign."

"I hope that this would lead to the settlement of the territorial issue and the success of the summit talks," Kaifu added.

Reports reaching here from Moscow said Gorbachev, in his meeting with Ozawa, indicated that Moscow is ready to negotiate with Tokyo on Japan's long-standing territorial claim to the four Soviet-held islands northeast of Hokkaido.

The Kremlin leader's remarks on the territorial issue were more positive than his earlier position, Ozawa told reporters later.

The territorial issue is expected to be the focus of Gorbachev's visit to Japan, the first ever by a top Soviet leader. Gorbachev is scheduled to visit Japan from April 16 to 19.

Meanwhile, Chief Cabinet Secretary Misoji Sakamoto at a press conference described the Ozawa-Gorbachev talks in Moscow as "significant" and "friendlier than ever before."

The government spokesman also indicated that Japan will be flexible in applying its position that Moscow would get no economic aid unless it acknowledges the islands belong to Japan and will be returned.

USSR Denies Plan To Sell Islands to Japan

OW2703033291 Beijing XINHUA in English
0246 GMT 26 Mar 91

[Text] Moscow, March 26 (XINHUA)—The Soviet Union today refuted the rumors that the country plans to sell four islands of the Kurile chain to Japan for 28 billion U.S. dollars.

The alleged sale was denied by Soviet Presidential Spokesman Vitaliy Ignatenko at a press briefing today on the second round of talks between Soviet President Mikhail Gorbachev and the visiting Japanese Liberal Democratic Party leader Ichiro Ozawa.

The spokesman said the Soviet side attached great importance to Ozawa's visit, "being aware that it is being held in connection with Mikhail Gorbachev's visit to Japan".

Both sides during the talks mentioned the issue of "Northern territories" as the only obstacle to the development of good bilateral ties between the two countries.

Gorbachev's position is that all aspects of the issue which developed historically should be taken into account and its existence should not be denied, Ignatenko said.

The spokesman disclosed that the president is consulting with close aides and the Foreign Ministry to come up with an effective solution to this thorny problem with Japan.

He added Gorbachev also stressed the need for both sides to abandon "rock-firm positions" to make relations good-neighborly between the two countries.

UNITED STATES

U.S. 'Taking Advantage' of Iraq Civil War

*HK2303042891 Hong Kong TA KUNG PAO in Chinese
23 Mar 91 p 3*

["Dispatch" by TA KUNG PAO U.S.-based correspondent Wang Renyun (3769 0088 5366): "The United States Is Taking Advantage of Iraqi Civil War"]

[Text] The United States has repeatedly warned Iraq against using fighters, military helicopters, and biological and chemical weapons to suppress the armed riots that are spreading in all parts of the country, because such military mobilization would threaten the coalition forces in Iraq. On 20 March, the U.S. forces did take action and downed an Iraqi "SU-22" jet fighter over Tikrit, President Saddam Husayn's hometown. The signal given by the United States to Saddam Husayn was clear enough: Before the permanent cease-fire arrangements are concluded and implemented, the U.S. forces will still take "necessary" military action at any time.

Downing the Iraqi Fighter

Saddam Husayn decided to use his fighter-bomber despite the U.S. warning, obviously because he urgently needed to do so. The Iraqi fighter was downed only 100 miles from Kirkuk, a major city in the north of Iraq, where the Kurdish guerrillas are operating. Apart from the Kurds, who are carrying out armed insurrection in the north, Shiite Muslims supported by Iran have also occupied a number of cities and towns in the south. Sporadic fighting has also occurred near Baghdad. The strength of the Iraqi Army has been seriously weakened. If the Air Force is not used, it will be hard for Iraqi authorities to stop the insurrection spreading to all parts of the country.

The United States prohibited Saddam Husayn from using his Air Force to suppress the insurrections. This objectively played a role in helping the Kurdish guerrillas and the Shiite insurgents. The U.S. hope of overthrowing the Saddam Husayn regime was no secret to anyone. However, this did not mean that the United States hoped that the Kurds or the pro-Iranian Shiite Muslims would seize state power. If Baghdad failed to control the situation, the most likely outcome of the civil war would be "Lebanonization" or a chaotic situation of tangled and prolonged fighting among Kurds, the pro-Iranian Shiites, and the originally ruling Sunni Muslims. This is not something that the United States is willing to see. The fact that the United States did not directly assist various factions of insurgents showed that the United States was worried about Iraq's "Lebanonization." On the other hand, the United States has also repeatedly indicated that it wants to see Iraq's territorial integrity maintained. This, in fact, warns Syria and Iran against having any territorial ambitions or taking any reckless action.

Warning Syria and Iran Against Taking Reckless Action

U.S. statements about hoping for the downfall of Saddam Husayn and the practice of prohibiting Iraq from launching air attacks on guerrillas certainly encourage armed insurrection in all parts of Iraq. At present, it is very likely that the United States is deliberately doing this to take advantage of the situation of spreading local insurrections to exert pressure on the ruling Ba'th Socialist Party in Iraq and to force it to accept harsh cease-fire terms.

Forcing Saddam Husayn To Compromise

The permanent cease-fire terms between the coalition forces and Iraq are now still being discussed by the UN Security Council. According to diplomatic sources, the United States maintained a tough position, demanding that Iraq completely destroy its chemical and biological weapons and that Saddam Husayn openly condemn terrorism. On the issue of war reparations, the United States also hoped to force Iraq to agree to use part of its oil revenue for this purpose. Kuwait hoped to settle the border disputes at the same time and hoped that the UN Security Council would deploy peacekeeping troops along the border accepted by Iraq in 1963.

If there was not the factor of civil war in Iraq, Saddam Husayn and his Ba'th Socialist Party might continue to play dilatory tactics in the cease-fire talks in order to strive for more favorable terms. However, in the present circumstances, as long as U.S. forces remain in the south of Iraq and continue to prohibit Iraq from using its Air Force, it will be hard to suppress the insurrections, which may even continue to spread and threaten the survival of the Ba'th Socialist Party.

For the United States, the fiercer the civil war in Iraq, the more likely that Saddam Husayn and the Ba'th Socialist Party will make greater concessions to the United States. As long as the fighting does not lead to Iraq's "Lebanonization," the continuation of the civil war will be favorable to the United States.

NORTHEAST ASIA

Japanese War Compensation Reconsidered

*91CM0313A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 302, Feb 91
pp 18-19*

[Article by Ting Kuo (0002 2654): "A New Proposal in the Question of Whether Japan Should Compensate China"]

[Text] During the many decades since the war, East Asia has undergone substantial changes. A rapid thaw has set in in the former hostile confrontations between South and North Korea, Japan and North Korea, China and South Korea, and between the Soviet Union and South Korea, and the cold war is drawing to an end. However,

the so-called "postwar" times are not yet of real "post-war" significance, because so many issues from World War II have not yet been completely resolved (for example, the question of Japan's four northern islands). Now, that the international situation has fundamentally changed, these issues should be resolved one by one, including the question of whether Japan should pay compensation to China.

Should Japan Pay Compensation?

According to international law, a country that starts a war without legal justification should pay compensation to the country on which damages have been inflicted during the war. In the great war, China and many countries of East and South Asia suffered untold tribulation from Japanese aggression, and it would, of course, only follow universally recognized principles that they be compensated after the war. Recently, Japan too has begun to earnestly deal with some of the residual problems of the war. A very clear example of this is Japan's decision to pay compensation to Taiwanese participants in the war, or to their families (during the war, Japan recruited residents of its colony Taiwan into the Imperial Army and used them as cannon fodder). Japan has begun to publish the names of laborers forcibly conscripted in South Korea during the war and is discussing their compensation. When of taking up relations with North Korea, Japan was also promising discussion of possible war compensation.

Japan is obviously making all these moves under international pressure. Haven't Canada and the United States also paid compensation to people of Japanese descent who lived there during the war and who, during that time, had suffered damage to their reputation, or physical and psychological damage? How about China then, which had suffered most cruelly in loss of lives and property from Japanese aggression; is it fair that China receives not one penny of compensation? Obviously, raising the question of compensation for China is not at all merely stirring up trouble without cause, or dishing up an old claim for a second time; it is rather something that ought to be done with full justification.

China's Renunciation of Compensation

However, when we bring up the question of Japanese reparations for China, we come face to face with one big obstacle: both the Chiang Kai-shek government and the Mao Zedong government have declared that they do not want Japanese compensation. This is an undeniable fact, but I believe we also have to consider in this connection the historical conditions of those days, in particular to what extent the decisions of the Chiang and Mao governments had been based on the will of the people.

The Historical Conditions. After the war, the nationalists and the communists fought it out. To be able to cope with the communists, Chiang Kai-shek's government was dependent on U.S. assistance, and the U.S. Government, after heated internal debate, was at that time

intent on maintaining the Japanese imperial system and on propping up Japan. For these reasons they demanded that the governments of China and other countries go easy on claims for war reparations from Japan or drop such demands altogether. Moreover, after its surrender, the Japanese Imperial Army cooperated of its own accord with the Nationalist government, and there was also the fact that Chiang Kai-shek had studied in Japan and was amicably inclined toward Japan. All these circumstances induced Chiang Kai-shek to proclaim that he would "return good for evil." It shows that Chiang's decision was mainly the result of external pressures and influenced by the civil war situation. Today's Tiaoyutai affair fully demonstrates how utterly ineffective was the principle of "returning good for evil."

When Japan and Communist China restored diplomatic relations in 1972, China was in the midst of the Cultural Revolution, and according to terminology generally used internally on the mainland, the 10 years of Cultural Revolution had been a time of fascist dictatorship. Only a few heads substituted themselves for the many heads of the entire population. Foreign policy consisted mainly of confronting the Soviet Union; there was no regular and intelligent course of action. When Zhou Enlai discussed the matter of compensation with Tanaka, Zhou said that China would renounce war compensations because it did not want to add to the burdens of the Japanese people. In actual fact, Japan's economy was at that time just taking off in a big way, and its national economy was about to catch up with the United States, while China's economy was collapsing, and the Chinese people lived in dire poverty. That was the reason why Mao Zedong felt compelled to release Deng Xiaoping and had him take charge of putting the economy in order again. It shows that Zhou Enlai's statement was merely the gesture of being a "great nation," but was certainly not based on actual facts. Article 5 of the Joint Sino-Japanese Declaration stated: "In the interest of the friendship between the two peoples, China declares that it renounces all claims against Japan for war compensation." The reason given is quite meaningless and contrary to the actual state of things. Besides, much earlier the nationalist government had already renounced all claims for compensation. The Beijing government had complied with the wishes of the Japanese Government and wrote Article 5 merely for the sake of appearance, and also because it was so very eager to establish diplomatic relations with Japan, to deal a blow against the Soviet Union and against the "Chiang gang."

Founded on the Will of the People. Although both the Chiang government and the Mao government said they were representing the Chinese people when they renounced war compensation, it is easy to see what the real situation was. The people who suffered most seriously during the war were not high officials and prestigious personalities, but the plain, powerless common people. If there had been a referendum among the people as to renouncing war compensation, I believe the result would have been a fair one. In a more straightforward

manner, we may ask: How large was the basis in the will of the people when the Chiang and Mao governments renounced war compensations? Strictly speaking, neither was a government elected by the people; their ways of governing were individual forms of dictatorship. Their decisions must, therefore, by no means be accepted as infallible laws. Today, when democratic freedom is gradually spreading, it should be possible to renew discussion of such past decisions that had never been supported by the will of the people. The collapse of the East European bloc and the unification of Germany are excellent precedents in this respect.

Open the Way for Private Claims for Compensation

Indications of impending change have first shown up among the common people, and a typical example is the "Hanaoka incident." Toward the end of the Pacific War, Chinese living in the provinces of Shandong and Hebei were forcibly abducted to Japan to serve as coolies. At that time, because Chinese laborers were badly maltreated by the Kashima Company (now the Kashima Construction Company) in Hanacho, Akita Prefecture, Japan (the present name is Odate City), Geng Zhun [5105 6150], a native of Henan Province, led an uprising of fellow countrymen, and many of them were killed. While the Chinese Government took an ambiguous attitude in these matters, the 76-year old Geng Zhun took action, demanding that the Japanese be held responsible. In December of 1989, Geng Zhun proposed to have the Japanese Kashima Construction Company pay each of their victims 5 million yen. In 1990, the Japanese invited Geng Zhun and other survivors to visit Japan and to participate in a memorial service in commemoration of the Hanaoka incident. The Kashima Construction Company formally apologized to the victims but refused to pay compensation, using the renunciation of all war compensations stipulated in the Joint Sino-Japanese Declaration as basis for taking this attitude.

In time, the Chinese official attitude underwent a subtle change. Originally, they would not explicitly mention the Hanaoka incident, but recently detailed reports of the incident and of the action taken by Geng Zhun and the other victims appeared in Cankao Xiaoxi [REFERENCE NEWS] and CANKAO ZILIAO [REFERENCE DATA], newspapers published in China for an internal readership. At a discussion held by the Society for Aid to the Chinese People, organized together with Japanese (acting as its representative is professor Hiroshi Tanaka of Aichi Prefectural University), Huang Shiming [7806 0013 2494], vice president of the Sino-Japanese Friendship Association said: "Compensation issues between private persons is a matter quite different from the compensation issue between governments. We hope Kashima will acknowledge the historical fact of having forcibly abducted Chinese laborers and of having maltreated them, and that they will pay compensation to the victims." He thus clearly stated official Chinese support for the standpoint that private citizens may seek payment of compensation.

Payment of Compensation Would Improve Japanese-Chinese Relations

During the last 100 years, Sino-Japanese relations have experienced several major upsets. The Sino-Japanese War of 1894 was very clearly provoked by Japan, but after China was defeated, Japan exacted from China a huge amount of "reparations," which they used to establish their gold standard, and which in turn became the foundation for their capitalism. Later, Japan occupied Manchuria for 15 years and occupied China for eight years. At that time, the Japanese plundered and destroyed incalculable amounts of property and took innumerable lives. If these accounts are not given symbolic meaning and are left unsettled by not actually paying belated compensation to the Chinese people, Sino-Japanese relations cannot possibly look forward with complete ease of mind and without suspicion to bright future prospects. I believe solution of the compensation issue will definitely contribute to an improvement in future Sino-Japanese relations.

First, by effecting war reparations, Japanese officialdom and the Japanese people will gain a clearer understanding of the war crimes committed by an earlier Japan, will have the Japanese people always follow a road of peace, and will ensure that they will never again suffer the tragedies of Nagasaki and Hiroshima. This will thwart the efforts of persons of evil intentions, should they try to revive militarism by means of obnoxious educational materials or by visits to the "Yasukuni Shrine."

Second, compensation is bound to assist the Chinese economy and help the Chinese people to advance on the road to prosperity. This would soothe the scars of history and evoke fraternal feelings where some nationalistic hatred lingers.

Third, after effecting compensation, the burden of past historical events will no more darken dealings between the governments of China and Japan. The two governments will then be able to frankly and without hesitation express their opinions, remove small differences in the search for great harmony, enabling a healthier and smoother development of Sino-Japanese relations.

Methods of Claiming Compensation

To get to the actual payment of compensations from the former state of having renounced all compensations in the Joint Sino-Japanese Declaration will of course require a complex process, proceeding step by step in an orderly way. Exploring methods of paying reparations will therefore be a test of wisdom faced by the two governments after having gained a common understanding in the compensation issue.

I believe it would be altogether unrealistic to demand at this juncture that the two governments start direct negotiations. It would be better to start out by having private citizens claim compensation and conduct local negotiations. The Hanaoka incident, for instance, would indeed

be an excellent starting point. Moreover, incidents all over the country of damage suffered from the aggression of the Japanese invaders (such as the Jiaozhuang, Pingdingshan, and other incidents) should all be brought up, and namelists of family members of victims and of survivors may be compiled, and private citizens then encouraged to claim compensation from the Japanese. In the case of cities that have suffered extremely serious damage, such as Nanjing, the local governments may claim compensation from the Japanese. At the same time, it may be possible to contact well-intentioned Japanese and have them organize pressure groups and to gain the support of Japanese public opinion. The Beijing Government could also indicate support for the actions of their private citizens and of local governments. Through this kind of procedure, advancing slowly and presenting actual happenings, the central governments of China and Japan could finally engage in formal negotiations to achieve a fair solution of the war compensation question. This is the only way by which we can truly initiate a peaceful era of "postwar" significance, that is, by truly putting the war behind us.

EAST EUROPE

Developments in Albania Viewed

HK2503055191 Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 11, 18 Mar 91
pp 29-30

[Article by Zi Yu (1311 3768): "Indicators on the Situation in Albania"]

[Text] On 22 February, the Presidium of the People's Assembly of Albania announced the formation of a Presidential Council which will come under the chairman of the Presidium of the People's Assembly. It accepted the mass resignation of the government headed by Carcani, and at the same time approved the establishment of a provisional government led by Fatos Nanos. The mass resignation of the government and the creation of a Presidential Council came as a result of the drastic changes in the situation in Albania since last December: Continuing political upheaval, serious economic troubles, political struggles, and intensifying social conflicts.

Following the dramatic changes in East Europe, the Albanian Workers Party and government adopted a series of important measures to democratize the country's life, deepen economic reforms, and expand foreign relations in order to adhere to the socialist path as well as to the centralized leadership of the Workers Party in the new international situation. But certain forces both at home and abroad have put increasing pressure on Albania, both politically and economically. Taking advantage of Albania's serious economic problems and its urgent desire to join the European Security Council and obtain economic assistance, they demanded that Albania introduce a three-point program featuring a "multiparty system, rule of law, and market economy." In mid-December last year, large-scale student boycotts

and demonstrations erupted in Tirana, demanding implementation of the multiparty system in Albania.

Under these circumstances, the Albanian Workers Party held an emergency 13th Plenary Session of the Central Committee on 11 December and made a decision "to allow the formation of independent political organizations." Albania thus ended 46 years of one-party system and began embarking on the path of political pluralism. This undoubtedly produced an immense and profound impact in the political and social life of Albania. Aside from the Workers Party, the country now has nearly ten political parties and social political organizations including the Democratic Party, Republican Party, and the Peasants Party.

Because of the introduction of the multiparty system, the People's Assembly elections originally scheduled for 10 February this year became Albania's first multiparty elections. An intense contest surrounding the elections was launched by all political parties headed by the Workers Party and the Democratic Party. The opposition party, the Democratic Party, founded last December now claims an 80,000 strong membership and is currently the biggest and most influential opposition party in Albania. It has become the main rival of the Workers Party (140,000-strong membership). In a bid to defeat the Workers Party and take over its ruling position, the Democratic Party, on one hand, has continued to hold massive rallies all over the country to win over the voters; on the other hand, it has brought out voluminous old historical accounts in order to attack the Workers Party and try to discredit it. At the same time, the Democratic Party also forced the Workers Party's peripheral organizations like the Democratic Front, the youth, women's, and trade unions out of the elections by demanding that the date of the elections be pushed back and the "Election Law" be amended. It demanded that the Army, security forces, judicial organs, and executive councils in all districts be depoliticized before the elections. It made up excuses to demand the resignation of the foreign minister and the defense minister; and it supported and used workers strikes and student boycotts to put pressure on the government.

Confronted by pressures and challenges by the Democratic Party, the Workers Party leaders and the party organ repeatedly rebuked accusations from the Democratic Party, stressing that the achievements obtained in the last 46 years "may not be dismissed," and that the Workers Party's accomplishments in Albania are "undeniable accomplishments." On the question of elections, the Workers Party insisted on its position that mass organizations like the Democratic Front may take part in the elections. At the same time, it also agreed to push back the elections to 31 March on the grounds that no strikes and boycotts may be held before 1 May.

Despite this, the wave of strikes and boycotts was unabated. Nor did the Democratic Party suspend its activities. The struggle between the Workers Party and

the Democratic Party has intensified, creating uncertainty and turmoil in the country's political situation and seriously hampering production and daily life. Many enterprises are either paralyzed or in a state of semi-paralysis. Production for the first two months of the year dropped dramatically, with only 70 to 80 percent of the main planning targets completed, while the mining sectors fulfilled only 50 percent of their planned targets. Delays in planting in the villages will greatly affect this year's agricultural harvests. Shortages in market supply will grow more acute. Beating, smashing, looting, and burning incidents as well as violent clashes have taken place successively in some cities as the law-and-order situation deteriorates on an unprecedented scale. Under these circumstances, the Presidium of the People's Assembly decided to create a Presidential Council coming under Chairman Alia on the 22d, accepted the mass resignation of the Carcani government, and formed a provisional government.

The Presidential Council and the new government are still made up of people from the Workers Party. The new chairman of the Council of Ministers, Nanos, is an economist who is only 39 years old. The new government retains eight members from the old one, including the defense minister whose resignation was repeatedly demanded by the Democratic Party. The provisional government will remain in office until a new government is formed after the general elections. Its duty is to "resolve the government crisis created by the serious political and economic situations in the country and provide the appropriate conditions to ensure the normal holding of the elections." In effect, the Presidential Council is taking over the functions of the dissolved People's Assembly.

The Presidential Council and new government, which were formed at a critical time, face very serious political and economic situations. Its first move was to adopt measures to stabilize the political situation and resume production.

On the night the Presidential Council was formed, it issued a statement calling for the restoration of order and stability all over the country, appealing to the people to resume production and obey the law and demanding that the Army fulfill its duties to protect the security of the country and the people. On the 23d Alia, the Workers Party leader, also asked the people to remain calm and restrained and to avoid bloodshed.

To restore order and calm, the provisional government asked security organs to adopt legal measures to eliminate all terrorist threats endangering the people's security. To do so, the internal affairs department issued a warning that "stern retaliatory measures will be taken against those attempting to disrupt public order and calm." The security organs acted quickly and arrested several hundred evil elements engaged in beating, smashing, looting, and burning within a few days and turned them over for court trial. At the same time, the Ministry of National Defense also issued a notice stressing that the military is loyal to the Presidential Council and will firmly enforce the orders of Commander-in-Chief Alia.

Meanwhile, in view of the request of the Presidential Council and under the auspices of Alia, all political parties and social organizations in Albania finally reached a two-point agreement on 2 March which contributed to the stabilization of the situation: First is not to hold outdoor rallies unrelated to the general elections; second is not to conduct debates or adopt any actions concerning the Hoxha issue before the general elections. The issue is to be decided in a referendum to be held after the general elections.

To reverse falling production and serious food shortages, the provisional government adopted emergency measures and decided to drastically cut administrative expenses and nonproductive investments, reduce by 50 percent its overseas personnel, conserve on foreign exchange expenditures, end all food exports, use foreign exchange to import foodstuffs, and also laid down a series of measures on strict labor discipline.

The creation of the Presidential Council and the new government and the series of measures they adopted have produced a positive effect in stabilizing the situation and winning back popular support. Since 23 February, no major turmoil has erupted in the capital Tirana and other areas.

In spite of this, factors of instability continue to exist in Albania. Saboteurs and "dark forces" in society will continue to stir up trouble and create incidents; the serious economic trouble remains a potential element which may lead to social upheaval; the possibility of yet another disruption in the Albanian situation cannot be ruled out.

Nature of 'Endowed,' Natural Human Rights Viewed

91CM0295A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 301, Jan 91
pp 43-44

[Article by Shen Hung (3088 1347): "Human Rights in China"]

[Text] For a long time now, overseas, we have come in contact with the familiar orthodox Western concept and viewpoint on human rights. The formula of the origins of orthodox Western human rights theory is probably as follows:

From John Locke's ideas on natural rights to Jean-Jacques Rousseau's concept of God-given rights to France's declaration on the rights of man and to Thomas Jefferson, who drafted the U.S. Declaration of Independence and Bill of Rights.

The world has continued to change in the past 200 years. People have understood human rights differently in different times and places. What is the history of human rights in China? How do the Chinese Communists and the mainland theorists understand human rights?

History of Human Rights in China

Human rights thinking is undoubtedly a product of Western culture. Yet, like China's four great inventions, it is the property of all mankind. In the late Qing and early Republican periods human rights thinking spread to China. China's liberal intellectuals and the Chinese Communists at the time both advocated "human rights."

In 1923, during the February 7th general strike organized by the Chinese Communists, they called out the slogan "struggle for human rights." (See the Chinese Communists' periodical XIANGDAO [DIRECTION] No. 20.) In 1935 the August 1st Declaration of the Chinese Communists also declared that they should "fight for human rights." In addition, in the thirties a group of liberal intellectuals rushed around China calling for human rights. In 1930, such people as Hu Shi and Luo Longji [5012 7127 1015] published essays, at times of mammoth proportions, in XINYUE [CRESCENT MOON] magazine advocating human rights and criticizing the policies of the government. Subsequently, these articles were compiled as *Collection of Human Rights Essays* by XINYUE Bookstore, the publisher of XINYUE magazine. In 1933, Cai Yuanpei, Lu Xun, Yang Quan and others formed the Shanghai branch of the "China Alliance to Protect Human Rights." The Beijing branch of this society had already been organized and was headed by Hu Shi.

In 1949, the Chinese Communists came to power. In 1955, Zhou Enlai attended the Bandung Conference in Indonesia and indicated that the Chinese Communists "respected human rights." Subsequently, the conference passed a declaration of some 10 principles, including

"respect for fundamental human rights." Yet, during the antirightist period and the 10-year Cultural Revolution, Mainland China condemned human rights as "bourgeois articles and fig leaves" and trampled them. Condemnation of human rights as "bourgeois rubbish" was hardly heard in Mainland China after 1979. For the most part people think that Mainland China must respect human rights, but there are many differences of opinion among mainland theorists on the theories and ideas of human rights.

In 1948 the government signed the "Universal Declaration of Human Rights" passed by the Third General Assembly of the United Nations. In 1971 the Chinese Communists became part of the United Nations and, in 1981, a member of the UN Human Rights Commission.

In 1980, the Chinese Communists signed the "Treaty on Eliminating All Forms of Discrimination Against Women" and subsequently signed a number of treaties related to human rights: "International Treaty To Eliminate All Forms of Racial Discrimination," "Treaty on the Status of Refugees," "Regulations on the Status of Refugees," "Treaty on the Prevention and Punishment of Genocide," "International Treaty on Suppression and Punishment of Racial Segregation," and "Treaty Against Torture and Other Cruel, Inhuman, and Degrading Treatment and Punishment." However, the Chinese Communists have not yet signed "Treaty on Civil and Political Rights" and "Treaty on Economic, Social, and Cultural Rights," two important human rights treaties passed by the United Nations in 1966.

The year 1988 was the 40th anniversary of the United Nation's "Universal Declaration on Human Rights." At that time, many newspapers and periodicals on the mainland published commemorative articles and several volumes on human rights thinking and compilations of materials were also published on the mainland. In April, 1989 a large-scale popular movement suddenly erupted in Mainland China. In the middle of May 1989, Li Peng said openly, "We do not think that freedom, democracy, and human rights are bourgeois special rights. Socialist countries should also be free, democratic, and enjoy full human rights." Please note: Several days later, Li Peng declared martial law in Beijing.

After 4 June last year [1989], many mainland newspapers and periodicals repeatedly published articles "denouncing" the "handful," "minority" of foreigners who "used human rights as a pretext" "to wantonly interfere in China's internal affairs."

Chinese Communists' Human Rights Theory

In the eighties, Mainland China's theoreticians had many divergent views on the term "human rights." After the 10 years of reform and relaxation began, a small group of people sensed keenly that human rights had been overlooked in the past and causing countless tragedies on the mainland; and they vigorously played up human rights close to the contemporary Western model. On the other hand, some people also began to emphasize

human rights to respond to increasingly strong criticism from abroad regarding the human rights situation in Mainland China. However, their discussion of human rights was only to attack Western criticism theoretically. The opinions of the two sides had their differences, but the views of the latter dominated and was close to the official view. The dominant official view is that socialist China naturally respects, advocates, and safeguards human rights, but socialist human rights are not the same as the "set" of human rights the capitalists refer to. They believe that human rights are not "universal" and some have suggested that "the theory of endowed human rights" is diametrically opposed to "the theory of natural human rights"...

What is the Chinese Communist view of human rights based on the theoretical foundation of Marxism-Leninism?

First of all, theoreticians of the Chinese Communist view of human rights believe that human rights are the "individual's" right of freedom and equality. Yet, "the exchange of equality and freedom are not only respected in the exchange based on exchange value, but the change in exchange value is the real foundation that produces all equality and freedom." (*Complete Works of Marx and Engels*, Volume 42, p. 197.) Human rights are "endowed," not "natural." Thus, human rights were hard to realize in ancient and poor societies and they were little advocated, but are easily realized in rich societies. Human rights are constructed on the economic foundation.

Next, they believe that capitalist human rights ignore and shun "collective human rights." They say, "Collective human rights concern the human rights of millions and billions of people and are much larger than human rights based on the individual. In a nation or a nationality that has been reduced to imperialist and colonial control, the entire nation or nationality suffers, not to mention individual democracy and freedom." (RENMIN RIBAO OVERSEAS EDITION, 10 July 1990.) In capitalist societies, Individualism is advocated. The human rights that capitalism refers to are only the individual human rights related to individualism. They believe that the sovereignty of Mainland China, a socialist country with a population of 1.1 billion, and the "collective human rights" of its 1.1 billion people are far higher than the human rights defined by the West—individual human rights.

In addition, they believe that human rights are culturally restricted. "Just as all people's concepts of value are conditioned by their culture, while reflecting and serving a commodity economy, the concept of human rights is bound to be subject to different cultural conditioning. Marx clearly stated that "rights can never transcend the socioeconomic structure and the sociocultural developments that are conditioned by the economic structure." ("Research and Commentary on China's Human Rights Question," Hu Yicheng [5170 5030 2052], FUJIAN LUNTAN [FUJIAN FORUM] No. 1, 1990.) From this

they draw the following conclusion: "Foreign reactionaries" want to "force" their human rights thinking and concepts on Mainland China, which has a different cultural background. This is clearly absurd.

They also believe that, in addition to cultural conditioning, there is also nationality and class conditioning. "Regarding the nationality nature of human rights concepts, Engels clearly pointed out the scientific concepts of the 'system of rights of a nationality and era' and severely criticized the theories that overlook the ethnic traits of human rights and appeal to 'natural rights,' that is, 'natural human rights' that lack ethnic traits." (Hu Yicheng, op. cit.) Marxists in capitalist society may do their utmost to advocate human rights. Chinese Communist official theoreticians believe that in capitalist society, the bourgeoisie own the means of production, exploit the proletariat, and seize the economic rights of the proletariat—i.e., economic human rights. Clearly the human rights enjoyed by the bourgeoisie and the proletariat are unequal. Thus, the proletariat should struggle for human rights and oppose exploitation in capitalist society. Marx believed that the rights possessed by the proletariat in capitalist society were a big step toward socialism.

However, what will be the consequences if Western-style human rights are won in socialist Mainland China?

Profile of Xing Benshi, Party School Official

91CM0272A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 252, Jan 91 pp 114-115

[Article by Ke Chun (2688 2504): "Xing Benshi, CPC Party School Vice President, Was Ye Qun's Teacher"]

[Text] Intellectuals on the Chinese mainland do not lack imagination, but one event that did not occur to them was the promotion of Xing Benshi [5717 6321 1835] to become vice president of the CPC Party School. There were many individuals within cultural circles who were forcefully propelled into high office by the 4 June incident, but few were shot that high.

Xing Benshi was a researcher at the Philosophy Institute of the Chinese Academy of Social Sciences studying Western philosophy, and had written articles and pamphlets critical of Western humanism. He had been labeled by scholars at the academy as an "always Red" figure. It did not matter who was in power, or what the general line was, he always assumed an "important position." From the days of Liu Shaoqi through Lin Biao, Hu Yaobang, Zhao Ziyang, to Jiang Zemin today, he has become a "five-generation Red figure," always found in the vanguard of party line struggle at each phase. As a result, he is not held in high regard by serious scholars.

Discussing Marxism and Leninism With Comrade Ye Qun

Stories about Xing Benshi's opportunism are numerous, and this article is only going to cite an event that is known by all. This pertains to how "Red" he was during the Cultural Revolution, that he was selected by the CPC Central Committee's Military Commission, then headed by Lin Biao, to teach philosophy to Ye Qun [5509 5028] who was Lin Biao's wife. Because Mao Zedong had ordered all senior cadres to study Marxism and Leninism, Lin Biao and Ye Qun invited two teachers from the Chinese Academy of Social Sciences (then called the Department of Philosophy and Social Sciences under the Chinese Academy of Sciences) to enlist them in this effort as their response to Chairman Mao's call. One of the teachers was a lecturer in ancient history, and the other was a lecturer in philosophy. The philosophy teacher was Xing Benshi. At the time, Ye Qun was the office manager for the Central Military Commission. Add that to the fact that she was Lin Biao's wife, she wielded considerable power, and might be said as second only to Jiang Qing among women who had clout. For anyone to be an instructor for such a powerful figure, he or she must undergo strict political investigation, and Xing Benshi had the good fortune to be selected.

How Xing Benshi was selected must necessarily be "top secret," even more so than Lin Ligu [2651 4539 5470] selecting a concubine. But the story gradually leaked that he was being chauffeured to work at the Central Military Commission. Particularly at that time when the ideological rectification team sponsored by the Academy of Social Sciences considered this an honor, the news spread that Xing Benshi was "Comrade Ye Qun's" teacher. Scholars back at the academy could hardly believe this piece of news. This seemed to stretch their imagination, for most of the people at the Academy of Social Sciences were quite bitter about leftist thinking after the onset of the Cultural Revolution. Should anyone offend Lin Biao or the "gang of four," they would be removed, and many were filled with oppressive feelings they kept to themselves. Especially when almost half of them were still under investigation (some were considered "capitalists," others "reactionaries," and still others, "May 16th elements"), and great numbers were still undergoing reform at the May 7th school for cadres. For Xing Benshi to be so fortunate under such circumstances as to be Ye Qun's "teacher" attests to his almost unbelievably great ability to survive.

At the beginning of this assignment, Xing Benshi was very mysterious about it. Later on, when he began to enjoy this connection to power, he bragged to his friends about how he taught Marxism and Leninism, including Lenin's "Philosophy Notes," to Ye Qun, and how "modest" a student "Comrade Ye Qun" was. Xing Benshi well knew how lazy Ye Qun was, so, for her convenience, he would underline all the important highlights of Lenin's writings and make "notes" on the page margins, which yielded instant results. Because of the "shortcuts" he provided, the "student" was very happy with the "teacher."

A Dog Without a Home After Lin Biao's Downfall

However, Xing Benshi never realized that the heir apparent, Lin Biao, would be "anti-party and anti-Chairman Mao," and become a "capitalist roader, schemer, two-faced counterrevolutionary, rebel, and traitor" (the conclusion of the CPC's 10 great announcements in 1973. He also did not think that the counter-revolutionary clique would appear within the Central Military Commission. When Lin Biao's plane plunged to the ground in Mongolia, Xing Benshi was still reporting for work at the Central Military Commission, and had no idea that his "wonderful student" had gone on to meet the king of Hades.

Following this, it was only natural that the movement to thoroughly investigate the revolutionary clique headed by Lin Biao was initiated. Associates of Lin Biao and Ye Qun were being arrested and Xing Benshi, considered a "confidante" and scared to the gills, was being investigated. Particularly after the downfall of the "gang of four," he was the focus of heightened investigation, and many posters were mounted on the walls of the Academy of Social Sciences calling for him to "honestly confess" his relationship with Lin Biao and Ye Qun. The Lin Biao affair was a deep shock to the politically ambitious Xing Benshi, and even his mastery of smooth talk and opportunistic awareness were not able to erase the ironclad bit of history that he had been Ye Qun's teacher. At the time he was under investigation he was quite depressed and kept writing paper after paper "recanting his sins" over and over again at the Philosophy Institute. During this period, he really was not able to hold his head high, and he would hurriedly escape into his office after purchasing his meal in the mess hall. Scholars at the Academy of Social Sciences really felt sorry for this suddenly homeless dog that no longer wagged its tail and who, only yesterday, was a "glorious" figure teaching a class in heaven.

A Counterstrike and a Striking Comeback

But Xing Benshi's "fate" was not destined to be a bad one. After the fall of the "gang of four," Deng Liqun [6772 4539 5028], who was in charge at the Academy of Social Sciences, maintained his relationship with him, for Xing Benshi had been an effective writer at the Ministry of Propaganda before the Cultural Revolution. As the result, Deng Liqun made some excuses that Xing Benshi "was used" and "lied to," so that he could escape further interrogation. Immediately, Xing Benshi seized the opportunity and turned the spear that was attacking him in a counterstrike to attack Ye Qun for her crimes of "an extravagant life style" and her "insincere study of Marxism and Leninism" (he was known for his counter-attacking style, when, during the early stages of the Cultural Revolution he gave the CPC's Ministry of Propaganda a counterblow). Then, in 1979, he actively participated in a discussion on "Practice Is the Only Criterion for Verifying the Truth," and through friends in the theory section of RENMIN RIBAO, he was able to

have his articles published in the party newspaper, to criticize the "anything-goes faction."

From this point on, Xing Benshi became a theorist for the "reformist" group. Up until the mid-1980's, he was also director of the Philosophy Institute. When Deng Liqun changed from being a "reformist" to oppose Hu Yaobang and Zhao Ziyang, Xing Benshi also followed with the flow, because Deng Liqun had helped him when he was in trouble. So, when other reformist theorists were falling out of favor, he was able, instead, to rise to the top. After the 4 June incident, he formally became vice president at the CPC Party School for Senior Cadres, again becoming a teacher to "CPC cadre leaders." Xing Benshi knew that the key to playing the political game on the China mainland lay not in yes or no, but in "hanging onto the line." The secret was to find the strongest line, after which there was nothing to be feared, for all kinds of special privileges would be in one's hands. Between "blessing and disaster" was "transformation."

Following the Right Modus Operandi To Head Party School

The vice presidency of the CPC Party School for Senior Cadres is a high political post, and it is not for one without "political credits" to show one's strong party standing. How did this opportunist demonstrate his political standing? He chose two researchers from the Academy of Social Sciences, Li Zehou [2621 3419 0624] and Liu Zaifu [0491 0375 1788] as objects of his critical attacks. First, he organized a group of leftist writers to write critical articles, after which he too would enter the fray with his scathing articles.

A critical article called "Thoughts on the Problem of the Subjective" that took up a whole page of RENMIN RIBAO on 10 August 1990 was, in thought and word, almost like that written by Yao Wenyan [1202 2429 6056] during the mad era of Lin Biao and Ye Qun. He reproached those who advocate the subjective nature of things as "pointing a spear at Marxism," as "twisting Marxism around any old way." He also angrily denounced Liu Zaifu's "On the Subjective Nature of Literature" as a "declaration of war against the Marxist view of literature which emphasizes literature as a derivation and reflection of life."

This is the old trick played by the "gang of four." For the vice president of a top-level party school to use such language is an indication of an unhealthy atmosphere in the halls of learning on the Chinese mainland. Of course, if we look at Xing Benshi's political experience, it shows he is one of those "blessed, because of sin." Not only did he not have to undergo rectification on account of his special relationship with Lin Biao and Ye Qun, he was also promoted every step of the way. As a result, he was grateful and made up his mind to make a contribution by critically attacking others.

After reading his article, Beijing intellectuals have been discussing in secret how this highly opportunistic party

school vice president, who is of such low moral character, could be such a poor writer. It may be permissible for this kind of critical article to be written by such uneducated persons as Ye Qun or the old marshal Wang Zhen [3769 7201], but not for one who claims to be an intellectual.

Even though Xing Benshi had a method to his operating style, his political nature had, early on, earned the people's contempt. As a character on the political stage, Xing Benshi is quite interesting sometimes. In the future, when Old Deng (Xiaoping) is no longer fit to continue, or Little Deng (Liqun) falls from power, Xing Benshi can still turn the spearhead around [reverse directions], for one more strike with it may provide a performance even more outstanding than the one accompanying the downfall of Lin Biao and Ye Qun. He may even become a "head" of something which is even more celebrated than being president of a school. At any rate, he may be destined to "rise to the top" in a way beyond the imagination of intellectuals on the mainland.

Praise of Socialism in Soap Operas Urged

HK2203124191 Chengdu Sichuan Provincial Service
in Mandarin 1015 GMT 18 Mar 91

[Text] The 1991 National Meeting on Soap Opera Creation and Subject Matter Planning and Management of Imported Overseas Soap Operas was held in Chengdu's (Jinniu) Guesthouse on 13 March 1991. In recent years, with the rapid development of the radio and television undertaking in our country, soap operas have increasingly become an artistic form loved by the broad masses of the people. A number of outstanding soap operas, epitomized by *Yearning*, which are true to life and practical reality have been warmly welcomed by the audience. In many cities, a vivid situation of hundreds of thousands of people watching has occurred.

How we should further bring about a prosperous art of socialist soap operas so that they can play a greater role in socialist spiritual civilization has become an issue of common interest to the people of the whole country in their cultural life. Wang Feng, vice minister of Radio, Cinema, and Television, made a speech at the meeting entitled: "Unite as One To Further Bring About a Prosperous Art of Socialist Soap Operas." Comrade Wang Feng summed up in an all-round way the basic experiences in the creation and management of soap operas throughout the country in 1990. He explicitly pointed out that efficient handling of subject-matter planning is a key factor for bringing about a prosperous art of socialist soap operas. He stated that subject-matter planning for soap operas in 1991 should overcome the weakness in subject-matter planning in recent years to give prominence to the subject matter of socialist modernization, especially of industry and rural areas. We should also do well in planning topics for youngsters and children and also minority nationalities to ensure the main theme of singing the praises of socialism, and implement in a still better way the principle of serving

the people and socialism, and the double-hundred policy. He emphasized that we should further improve management of imported overseas soap operas from the high plane of opposing peaceful evolution strategy by hostile international forces and implementing our cultural policy. We should greatly reduce the quantity of imported soap operas and strive to emphasize their quality, so that we can make use of outstanding foreign art in a still better way.

(Ye Daxiang), deputy director of the Propaganda Department under the CPC Central Committee, also spoke at the meeting. He expressed important views and profoundly expounded on how literature and art creative workers should further unite as one to take a correct direction in their creative thinking, do more practical work to implement well the principle of serving the people and socialism, and strive to portray the new socialist era and create a new image of socialist people.

On behalf of the Sichuan Provincial CPC Committee and government, Qin Yuqing, member of the Standing Committee of the Sichuan Provincial CPC Committee and director of the Organization Department, also spoke at the meeting. Provincial vice governor Liu Changjie; (Li Zhi), deputy director of the provincial Propaganda Department; Hong Minsheng, deputy director of the China Central Television Station; (Han Xunyi), head of the local propaganda section under the Ministry of Radio, Cinema, and Television; and others also attended the meeting.

A total of 216 persons, including responsible persons of radio and television departments and bureaus, television stations, film studios, and soap opera producing units

from various provinces, municipalities, autonomous regions, and cities specially listed in planning were present at the meeting.

Today's meeting was presided over by Ruan Ruolin, vice chairman of the Chinese Television Artists' Association.

New Quarterly To Promote Copyright Protection

*OW2103145191 Beijing XINHUA in English
1326 GMT 21 Mar 91*

[Text] Beijing, March 21 (XINHUA)—China launched a quarterly magazine entitled COPYRIGHT [ZHUZUO QUAN] here today in an attempt to protect copyrights and popularize the country's new copyright law.

The new magazine is published by the National Copyright Administration and the Copyright Society of China. At a press conference held today, Liu Gao, the deputy director-general of the Copyright Administration, said that the quarterly will aid copyright law research and publicity.

China passed its copyright law in September last year. It is currently working out regulations for implementing the law on June 1st this year.

Liu disclosed that China plans to sign the International Copyright Agreement some time after the country's copyright law is put into effect.

Also at today's press conference, Nelson K.F. Wong, chairman of the Hong Kong Star Paging Group [a telephone paging and data information service group of companies], announced that he will donate 100,000 H.K. dollars to promote the new law.

NATIONAL AFFAIRS, POLICY

Policy Regarding Idle Resources Reviewed

HK0402123191 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 12, 20 Dec 90 pp 17-23

[Article by Zhong Pengrong (6988 2590 2837) from the Center for Investigation and Study under the General Office of the CPC Central Committee, edited by Dong Xue (2639 7185), dated October 1990: "Idleness of Resources and China's Macroeconomic Policy"]

[Text] The increase in the already huge amount of idle resources is becoming a heavy burden on China's economic development. The fact that substantial amounts of resources are left idle means that the proportion of total resources effectively utilized is reduced, and the actual rate of economic growth is lagging far behind the latent growth rate. As more resources are left idle, the effective output value generated by the non-idle resources must account for an increasing amount of depreciation and interest and wage payments with respect to idle resources. Economic performance will naturally drop as a result. Massive idle resources also spells an increasing shortage of available circulating funds. Many enterprises are thus forced to live on credit. Thus, an important task in our economic work is to minimize and ultimately eliminate idle resources, so that all resources are utilized in the production of essential products.

I. Four Forms of Idle Resources

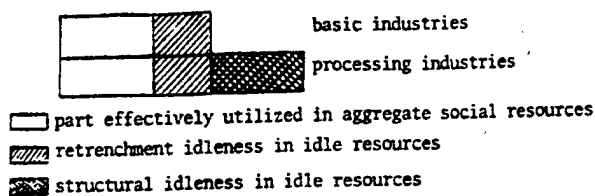
Seen from various links of social reproduction, idle resources may take any one of the following four forms: 1) Idle production forces. This means that capital goods and labor are left idle and not used in production for various reasons. 2) Idle products in the production area. This means that an enterprise has carried out production and produced products, but the products are held in inventory and left idle after the lapse of a reasonable inventory period. 3) Idle products in the circulation area. This means that although an industrial enterprise has sold products to a commercial enterprise, the products are stored in warehouses and left idle for prolonged periods because the latter cannot arrange the final sales. 4) Idle products in the consumption area. This means that purchased products can serve no useful purpose, and they become household junk.

As far as the above-mentioned four forms of idle resources are concerned, losses arising from idle products are greater than losses arising from idle production capacity. Excluding losses due to idle production capacity, the former includes losses incurred from energy and raw and semifinished materials consumed in their production. Losses arising from idle products in the circulation area are also greater than losses arising from idle products in the production area, since the former must also add in circulating expenses payable during products' passage from factories to shops. Losses arising

from idle products in the consumption area are in turn greater than losses arising from idle products in the circulation area, since the former must add circulating expenses of products during their passage from shops to consumers. In other words, prior to an overall improvement in the macroeconomic environment, it is more commendable to let certain production capacities lie idle rather than utilize such capacities in production, and have the products delivered to shops or sold to consumers, only to result in idleness in the circulation or consumption areas. For some time, we have extended loans to production enterprises to meet their needs for circulating funds (so-called production boost), extended loans to commercial enterprises to meet their purchasing needs (so-called circulation boost), and encouraged household and institutional consumption (so-called consumption boost). These measures have indeed proved useful in reducing certain types of idle resources. However, we should bear in mind that, to a large extent, these measures have merely changed the form of idle resources and have not reduced their overall amount. Thus, in order to truly eliminate idle resources, we must identify their true causes and conduct work on a deeper level.

II. Two Categories of Idle Resources

There are many reasons for idle resources. From the macroeconomic perspective, there are two categories of idle resources. The first category is caused by excessive retrenchment, with the result that total demand lags behind total supply. This is abbreviated as retrenchment idleness. The second category is caused by an imbalanced industrial structure, and is abbreviated as structural idleness.¹ The following diagram illustrates the situation regarding these two categories of idleness:



Retrenchment idleness is expressed in two ways. First, large quantities of unsalable products are kept in inventory. At the end of February 1990, the value of finished products in industrial enterprises' inventories totaled 162.4 billion yuan, up 62.7 percent over the same period in 1989.² At the end of July 1990, commercial enterprises' inventories registered a 10.9 percent increase over the same period in 1989, while inventories held by materials management enterprises increased by about 20 percent. The value of inventories in industrial enterprises amounted to 109.7 billion yuan, up 45.9 percent over the same period in 1989 and 30.3 percent more than in the beginning of the year.³ Not only were overstocked goods selling slowly, but many goods which were previously in great demand were also hit by sluggish sales. For instance, large quantities of coal, rolled steel, and diesel oil, which used to be in very short supply, are lying idle.

This shows that overstocking in the last few years is caused not only by structural imbalances, it is also triggered by inadequate total demand. Second, the economic growth rate falls below the level at which it should be. Economic growth needs the support of resources and the market. In terms of resources, the primary factor holding back China's economic growth is basic industry. Analysis indicates that basic industry is capable of ensuring an 8-percent economic growth rate. In 1989, the actual growth of China's gross national product [GNP] was only 3.9 percent.⁴ During January through August 1990, the gross value of industrial output was only 2.6 percent higher than in the same period of 1989.⁵ Economic growth could not reach the level it should have, not because there was a lack of resources, but because there was no market. In other words, there was inadequate total demand.

Opinions of economists are divided as to the relationship between total supply and demand in China since the second half of 1989. Some think that in aggregate terms, China's total demand still exceeds its total supply, and that overstocks are due to a shortage of structural demand. An important basis of this view is that China has savings deposits worth nearly 500 billion yuan, and has some 200 billion yuan in cash on hand. These astronomical sums form part of total demand. Besides, under normal circumstances, there will always be a balance of savings and cash-on-hand that never turns into demand, and this balance will grow as the economy develops and people's incomes increase. It is only in times of great political and economic uncertainty, when people lose all faith in the future, that this balance will be drawn upon and turned into demand. As China is now politically and economically stable, it is obviously inappropriate to include this balance in either immediate or future demand.

Let us now look at structural idleness. Structural idleness is also expressed in two ways. First, some parts of production capacity are idle due to shortages of energy, transportation, raw and semifinished materials, and other basic industrial products. The most prominent problem at present is that the capacity for cotton spinning cannot be fully utilized due to cotton shortages. Second, some production capacity or some products are idle because they are absolutely in excess of the domestic market capacity.

Structural idleness is the result of an unbalanced industrial structure. A direct cause of this structural imbalance is the economic overheating which occurred a couple of years back, while its deeper cause lies in the system of decentralization which operates under soft budgetary constraints. This system has the following characteristics: First, in spite of the fact that the practice of separate budgetary plans for central and local authorities is adhered to, bank credit funds remain a common "rice pot." Second, the major initiators and policymakers of investment in local capital construction are leaders of local governments and departments concerned. They have the power to determine investment, but need not

bear the risk of or responsibility for losses. Third, the dual-track pricing system is practiced, with the state imposing stricter control over prices for energy, raw and semifinished goods, and other basic industrial products than on processed industrial goods. When this pricing system is fueled by inflation, the problem of low prices and profit margins for capital goods and high prices and profit margins for processed goods becomes all the more pronounced. Under this system, local investment has two distinguishing features. 1) Out of various considerations, such as the desire to increase output values, revenues, and job opportunities, all localities have a strong propensity to increase investment. Since the credit fund is a "big pot" from which everybody eats, and since local governments have considerable control over banks at their corresponding levels, such propensity to invest can turn into reality through the granting of loans. When the Central Bank relaxes its control over the money supply, a massive tide of investment becomes unavoidable. The last few years have seen the mushrooming of new projects and redundant construction. Most of these were financed by bank loans rather than local revenues. This kind of investment competition is in fact a competition which turns the "rice" in the public "rice pot" into the "rice" in "small pots." In other words, everyone strives to turn more state credit into local investment in order to increase their own output values, revenues, and job opportunities. 2) Local authorities are willing to invest in processing industries, but not in basic industries like energy production and the production of raw and semifinished products. This is because basic industries contradict the investment motives and characteristics of local governments in five ways. First, there is contradiction between local governments' motive to increase output values and the small output values generated by basic industries. Second, there is contradiction between local governments' motive to increase revenues and the low profit margins of basic industries. Third, there is contradiction between local governments' motive to provide jobs for the unemployed and the small number of jobs generated by basic industries. Fourth, there is contradiction between the meager funds raised by local governments and the substantial investment required by basic industries. Fifth, there is contradiction between the mentality of local governments to seek quick results and the long time it takes for basic industries to produce results. In addition to these five contradictions, local authorities also tend to think that when they have developed processed industries, the state will definitely provide them with energy and raw and semifinished materials, and if not, they will still be able to secure supplies outside the plan. The saying "everything will be all right when the time comes" suggests this.

The first characteristic mentioned above determines local authorities' desire to launch new projects in a big way, while the second characteristic determines local authorities' tendency to prefer processing to basic industries. Because of these characteristics, every time money supply eases and economic overheating occurs, we will

see a new imbalance between basic and processing industries, and more resources will be idled.

III. Eliminating Retrenchment Idleness

We cannot fundamentally eliminate retrenchment idleness simply by improving product quality and actively promoting sales. The fundamental way to tackle this problem is to increase total demand on the macroeconomic level so that immediate total demand corresponds more or less with supplies of existing resources. If existing resources can supply what is needed, society should be allowed to demand as much as it wants. Here, two points need to be taken into consideration:

First, total supply here refers not only to supplies already produced, but also to supplies that have not yet been produced but that could be produced using existing production capacity. For instance, this year we have already produced goods worth 800 billion yuan. If total demand is kept within the 800 billion yuan limit, can we say that total demand corresponds more or less to total supply? No, we cannot. The reason is that with our existing capacity, we should be able to supply goods worth 1 trillion yuan. With total demand fixed at 800 billion yuan, the capacity to produce an additional 200 billion yuan worth of goods is not utilized. Of course, what we mean by the existing production capacity only refers to production capacity that can be utilized in a coordinated way. Some production capacity, such as that for cotton spinning, cannot be utilized in a coordinated way due to cotton shortages. Thus, however great the demand for cotton yarn and cotton cloth, we still have no way to increase supply.

Second, total demand here refers to immediate demand, not latent or delayed demand. Even if people have savings or cash, if these are not spent on purchases this month, they cannot be counted as this month's demand; if they are not spent on purchases this year, they cannot be counted as this year's demand. Although people are going to spend their savings on purchases this year, if they do not buy anything until the end of the year, then as far as the first half of the year is concerned, the demand is not immediate. As a whole, demand for the entire year may be considerable, but for the first six months we will still say that demand is inadequate. The lack of demand in the first six months of the year will still affect the utilization of production capacity and the improvement of economic performance. To tackle this problem, the government should take measures to stop the gap caused by delayed demand in the first half of the year.

An important problem to address as we try to increase total demand is the decision on where the increases are to be made. Here, the following principles should be observed. First, the increase in demand must correspond with structural readjustment. Under no circumstances

should an increase in total demand provide an opportunity for the further development of products and enterprises whose production should be restricted. Overstocked goods is the very lever that compels certain enterprises to close, temporarily shut down, merge, or be restructured. By boosting consumption of these goods through various policies, we are in fact taking away this lever. This means that overdeveloped industries cannot be restricted, and structural readjustment will be a wasted effort. Second, the increase in total demand must serve the interests of long-term economic development and provide more job opportunities for those awaiting employment. If people do not spend their income on immediate purchases, they are in fact allowing the state to use these resources for a given period. The state should make full use of these resources in equipment updating and basic construction so as to build up economic strength. Although giving a massive boost to consumption (including institutional consumption) and nonproductive investment (including housing construction) is an answer to the current problem of overstocking, this method is not conducive to building up economic strength or creating more jobs to meet the needs of the growing number of unemployed. Third, the increase in total demand must be conducive to future price stability. In no way should efforts to overcome sluggish sales result in another round of price hikes. To achieve this objective, we must pay attention to the following three principles: 1) The increase must be within appropriate limits. 2) The increase must be conducive to the expansion of future supply. 3) While increasing total demand within appropriate limits, we must try to keep the huge amounts of savings deposits at a steady level.

In the light of the above three principles, I think that we should put the stress on the following tasks when increasing total demand:

First, we should increase investment in key state construction projects which are nearing completion. The state has already poured huge sums of money into these projects, and some have been under construction for many years. They cannot be completed and enter production because they still need a little extra cash. With a little more investment, they can enter production this year or early next year. When we say that these projects need more cash, we actually mean that they need more rolled steel, timber, machinery, or the like. On the other hand, we have lots of rolled steel, timber, and machinery stored in warehouses. The question is how construction units can get the money to buy building materials and equipment and complete the projects as quickly as possible.

Second, we should increase investment in technical transformation. According to a general survey of China's industry in 1985, 38.94 percent of the equipment installed in industrial enterprises was produced in the 1980's, 42.98 percent was produced in the 1970's, and 18.08 percent was produced before the 1960's. It is true that new or relatively new equipment accounts for over

80 percent of the total, but new equipment does not necessarily suggest sophisticated technologies. Although the equipment produced in the 1970's at a cost of 136.59 billion yuan has not been in service that long, most are old products based on models dating back to the 1950's and thus are rather technologically outmoded. Besides, they were the result of slipshod work done during the Cultural Revolution, and therefore are of poor quality. As statistics show, only one-third of China's equipment is technologically and economically advanced; only a mere 13 percent is up to international, advanced levels; less than 22 percent has reached or approached domestic advanced levels; and two-thirds perform in a backward manner.⁶ With this kind of equipment, it is unlikely that China can have the strength to develop its economy or improve its economic performance. How long can our economy go on with this kind of equipment? We should use the present opportunity, with the market sluggish and large quantities of machinery products idle, to update some of our antiquated equipment. This kind of updating can yield quick results with little investment.

Third, we should honor all IOU's held by peasants as quickly as possible. To date there are still many IOU's owed to peasants. These IOU's must be honored sooner or later. Rather than honoring them when supply falls short of demand and prices are high, why not repay the peasants when the market is sluggish? When peasants have money in hand, they can increase agricultural inputs and suitably increase consumption. This will not only eliminate the current phenomenon of sluggish market, but will prove advantageous to agricultural production in the coming years.

Fourth, we should increase investment in sectors with bottlenecks. Take power generation for instance. When the electricity supply is increased, substantial production capacity which was idle due to power shortages can be utilized, and household electrical appliances left idle due to frequent power outages can fulfill their respective functions. As a result, the supply of essential products in society will increase. Thus, increasing investment in these sectors with bottlenecks is not only the answer to the current problem of a sluggish market, it can help build up economic strength.

An important question in increasing total demand is how to handle the problem of funds on a microeconomic level. In other words, when we try to increase total demand in the four areas discussed above, where will the money come from, and how will it be allocated to the individual units concerned.

When total social demand lags behind total social supply, it means that the society's fund utilization is less than the source of funds.⁷ The way to achieve a balance between total demand and total supply is to increase the funds in circulation. There are three ways to do this: First, by issuing bonds and other measures, the state can turn society's idle, unused funds into a source of funds for financial allocations to the above-mentioned units which deserve to increase their demand. Second, banks

can directly increase loans to the above-mentioned units which deserve to increase their demand. Third, funds may be raised through direct means. For instance, enterprises and construction units may invite staff and workers, as well as members of the public, to purchase bonds and shares.

A comparison of these three methods of raising and allocating funds shows that, from the perspective of the speed of fund raising and allocation, bank loans are the most efficient, followed by fund raising by units and fund raising and allocation by financial departments. From the perspective of future price stability, bank savings and loans involve some risks. When something goes wrong (as in the case of the panic buying in 1988), huge deposits are likely to be withdrawn and spent on purchases, while loans cannot be recalled instantly. The same source of money may be promised to two units, and the overall balance will be upset. State bonds and bonds and shares issued by units are not such a risk. From the perspective of the effect of investment on the operational mechanism, when funds are pooled by financial departments or banks and then allocated or loaned to enterprises, the latter will feel less pressure when using the money, and the resultant economic performance is likely to be poorer. When funds are raised directly by construction units or enterprises, they will feel considerable pressure when using the money, and the resultant economic performance is likely to be better.

In addition to considering the speed of fund raising, the risks involved, and the effect on the operational mechanism, we also need to consider the cost of fund utilization. As a result of the tendency in recent years to give preference to individuals when distributing national income, private funds now make up a growing proportion of the funds utilized by the state and enterprises. Whether these funds are raised and allocated through bank savings and loans or through financial borrowing and allocation, they usually involve fairly high, though stable, interest rates. Construction projects or enterprises have to pay interest on these funds, regardless of whether they are making a profit and regardless of how much the profit is. As the proportion of private funds used in enterprise operations increases, the burden becomes too heavy for the present profit level of our enterprises. To resolve this contradiction, they may adopt the method of short-term, uncompensated financing, in which staff and workers are called on to share the burdens of their enterprises. For instance, if an enterprise does not have the necessary money to finance technical transformation and cannot afford the bank's interest, it may mobilize its staff and workers to lend their enterprise several dozen yuan or a hundred or so yuan with a promise not to demand any interest payment. When the project is completed and begins generating revenues, the enterprise may pay back the money owed, or turn the loans into share capital for long-term use of the enterprise, and staff and workers may participate in dividend payments. Some of our key state projects are nearing completion but cannot enter production for the time being, because they are short of funds.

Once these projects enter production, they can provide jobs for many unemployed youths. If each youth could advance a couple thousand yuan to a factory before they start work, and the construction unit is not required to pay them interest until the project is completed and begins generating revenue, at which time they can either repay the money or treat the money advanced as share capital, then the units could speed up the pace of work and reduce the post-production interest burden of the projects.

Based on the characteristics of the three methods of fund raising discussed above, I believe that we should adhere mainly to the practice of directly pooling funds from the staff and workers and from members of the public, supplemented by financing and allocation by financial departments and banks. This should be done regardless of whether we are developing bottleneck sectors, carrying out technical transformation in enterprises, or rounding off key state projects nearing completion. The direct pooling of funds should be practiced wherever possible. However, the following two points must be taken into consideration when directly pooling funds: First, on a macroeconomic level, the size and direction of fund raising must be controlled in the same way that the size and direction of credit is controlled. Planning committees and people's banks at various levels must have unified control over who can raise funds and how much funds they can raise; only those authorized should be allowed to raise funds. In this way, it will be possible to control the scale of total demand while ensuring a rational flow of funds when the market mechanism is still not healthy. This can also prevent an increase in redundant and low-efficiency construction from the pooling of funds. Second, on a microeconomic level, compulsory fund raising should be avoided. For instance, if an enterprise intends to pool funds for technical transformation, it must explain to its staff and workers the importance of the project to the development of the enterprise, future economic projections, and so on. They must solicit the views of the workers' congress or of all staff and workers, so that they will see the necessity of the project and hence be willing to chip in.

IV. Eliminating Structural Idleness

There are four ways to eliminate idle resources resulting from industrial structural imbalances.

First, through export. As noted above, there are two types of structural imbalances. The first is the result of disharmony between the production and consumption structures, with the production capacity absolutely exceeding domestic demand in certain sectors. The second is the result of disharmony between processing and basic industries, with the former developing rapidly and the latter developing at a snail's pace. The best way to resolve these contradictions is to export products that are in excess of domestic demand in exchange for much needed resources. In this way, idle resources resulting from the two types of structural imbalance can be

overcome. For example, by exporting color television sets and importing cotton, the surplus production capacity for color television production and for cotton spinning can be utilized.

Second, switching to other lines of production. Some enterprises producing overstocked goods can switch to other lines of production simply by replacing some of their equipment. They are like "ships" that can change direction easily. Provided that they have the support of departments concerned, they can change direction in no time at all.

Third, through declaring bankruptcy. Some enterprises are producing overstocked and unsalable goods. Their equipment is idle most of the time, and they cannot use their idle resources by expanding exports or switching to other lines of production. They live on bank credit and loans from other enterprises, and have completely lost the ability to repay their debts. Such enterprises should declare themselves insolvent and repay their debts using proceeds from the sale of their assets. If their equipment is advanced but in excess of immediate demand at home, it should be sold to Third World countries as second-hand equipment.

Fourth, through stopping production. Enterprises that cannot eliminate idleness through exporting or switching to other lines of production have no alternative but to indefinitely suspend production if they do not declare themselves insolvent. This means letting all assets sit idle. Currently there are many such enterprises in our country.

Of these four options, the first can eliminate idle resources without resulting in a loss of assets. The second can eliminate idle resources with a small loss of assets (the equipment replaced). The third makes it possible to utilize some idle resources (the equipment sold) while the remainder (unsold equipment) has to be written off. The fourth means that all assets will be left idle indefinitely. Thus, in order to cut losses due to structural idleness, we should opt for bankruptcy in favor of stopping production; for switching production in favor of bankruptcy; and for exporting in favor switching production. As things stand now, expanding exports will indeed be an important means of minimizing idle resources for certain products, provided that efforts are made to improve quality and expand the market. It is also not difficult to switch certain idle production capacity over to other lines of production with some slight improvements in equipment. However, most of the production capacity that cannot produce products for export or switch to other lines of production can only choose between bankruptcy and stopping production. As far as this part of production capacity is concerned, the thing to do is to declare bankruptcy as soon as possible, in order to cut losses and subsidies and eliminate possible debt chains and other problems.

In a bankruptcy scenario, we are likely to run into one of the following three problems:

First, who should be allowed to declare bankruptcy? In the past few years, production lines for color television sets and refrigerators have mushroomed all over the country, and some provinces have certain types of production capacity (such as cotton spinning mills) in almost every county. Protected by local authorities, raw materials earmarked for three factories are shared by five, and the market for three factories is likewise shared by five; the result is that each can only work intermittently. In this case, which production lines should be shut down and which should be kept? This poses a problem to the authorities in charge of regulation through planning. The best, most acceptable approach is to let the market mechanism decide. If the state strictly prohibits local blockades and lifts price restrictions on products concerned, then those enterprises with good performance and high quality will be able to compete in the market with their high-quality and low-priced goods, and can obtain raw materials by offering higher prices. Enterprises with poor performance that cannot do this will automatically be eliminated. This elimination process has two advantages over the method discussed above. First, only enterprises with poor performance will be eliminated. Second, because local governments do not play any role in the process, they will have no reason to hold grudges against higher authorities.

Second, what will local financial departments do after enterprises have declared themselves bankrupt? Some enterprises that produce overstocked goods and are inefficient should be closed down based on macroeconomic considerations. However, they also happen to be the economic lifeblood of their respective cities or counties. Once they are closed, local authorities will be deprived of a major source of revenue. They will not only be unable to finance any construction, but will be unable to pay for their workers and teachers. To resolve this contradiction between the state's industrial policy and local financial difficulties, we have no alternative but to readjust the base figures of financial contributions by various localities while effecting a major readjustment of the industrial structure, so as to make it financially bearable for areas with more closures. The truth is, losses incurred due to structural readjustment are shared by the whole society rather than by particular areas.

Third, what should we do with employees of insolvent enterprises? Two things need to be done. First, relief should be given to the laid-off employees so that their basic living needs are guaranteed. Second, efforts should be made to create more job opportunities so as to provide jobs for the unemployed as quickly as possible. On the question of unemployment relief, we should mainly strive to improve on the methods of relief, and should not simply seek to increase the sources of relief. The fact is, most employees at enterprises that have stopped production are still cared for by the state (admittedly wage payments have stopped in some cases), although this is done in the form of subsidies rather than in the form of unemployment relief. This passive method of relief is not conducive to readjusting the

industrial structure, nor to raising the technical level of employees. We should have these inefficient and overdeveloped enterprises declare themselves insolvent, turn enterprise subsidies into unemployment relief, provide technical training to laid-off employees, and give priority in job allocations to those who perform well during training. In this way, the state will not spend its money passively on relief but will create the necessary conditions for structural readjustment and for improving employees' skills. Of course, relief should be provided to the unemployed as an interim measure. The fundamental way of tackling the unemployment problem is by expanding employment and creating more job opportunities. To this end, a major principle to be observed is that, in the next few years, we should try to suitably raise the rate of accumulation, increase investment in production, reduce the rate of growth of the national consumption level, and create more jobs for the vast numbers of unemployed. Second, we should give positive support to setting up a variety of private businesses. In this regard, the principal function of the government lies not so much in funding businesses as in providing policy guidance and creating a more flexible environment so that the unemployed can create their own jobs.

Footnotes

1. In addition, enterprises' raw and semifinished materials, equipment, and labor are also idle due to mismanagement. This kind of idleness is a problem on the microeconomic level, and needs to be resolved through better management and further reforming of enterprises' internal management systems. This kind of idleness is not discussed here, because this article is concerned mainly with studying macroeconomic policies.
2. See "Ratio of Sales to Production Drops Further due to Seriously Overstocked Finished Products," JINGJI CANKAO, 16 April 1990.
3. See "What We Rely on To Boost the Market," JINGJI RIBAO, 3 October 1990, and "China's Industrial Production Up by 4.6 Percent in August," JINGJI RIBAO, 9 September 1990.
4. See "Statistical Bulletin on 1989's Economic and Social Development," JINGJI RIBAO, 21 February 1990.
5. See "China's Industrial Production Up 4.6 Percent in August," JINGJI RIBAO, 9 September 1990.
6. See *The Present State of China's Industry*, People's Publishing House, 1990, pp. 96-100.
7. From a credit viewpoint, the sources of so-called credit funds are the total resources unsold and left idle in society. If, in a certain month, 300 billion yuan worth of goods and materials are left idle, there will be 300 billion yuan available as credit funds. In order to keep them from lying idle, we should release 300 billion yuan into circulation (assuming that the speed of circulation is once a month), so that people can purchase these goods

and materials. From a balance of credit viewpoint, it is possible to release 300 billion yuan, because the source of credit funds determines the utilization of credit funds. From a commodity circulation viewpoint, commodity circulation (300 billion yuan worth of commodities awaiting sale) determines money circulation. In other words, 300 billion yuan is the necessary amount determined by commodity circulation. By putting the two together, we conclude that "the quantitative limit of credit is determined by the necessary amount of cash." See Huang Da [7806 6671], *Introduction to the Theory of Overall Balance of Financial Credit*, p. 107.

Positive Role of Auditing in Economy Affirmed

OW1802095291 Beijing XINHUA in English
0918 GMT 18 Feb 91

[Text] Beijing, February 18 (XINHUA)—Auditing departments in China have been playing an important role contributing to the healthy development of the country's economic construction, PEOPLE'S DAILY reported today.

According to the newspaper, during the Seventh Five-Year Plan period (1986-1990), auditing departments at various levels audited 716,000 units and recovered 10.83 billion yuan in various law violation fines.

Meanwhile, these auditing departments audited the country's more than 70,000 industrial and commercial enterprises, and put forward suggestions for perfecting the contract responsibility system in enterprises, helping these enterprises overcome shortsightedness in implementing the contracts. The auditing departments also audited the country's 90 key construction projects, saving the country 2.7 billion yuan.

Over the past five years, the auditing departments have persisted in conducting regular audits on the revenues and expenditures of governmental departments, greatly enhancing the construction of a more honest and efficient government.

Moreover, the departments at various levels have cooperated with related departments to check corruption, including arbitrarily apportioning expenses and collecting fees at random.

During the Seventh Five-Year Plan period, more than 3,000 local governments above county level set up auditing departments. The auditing administration also established accredited organizations in 41 ministries under the State Council and 14 cities.

New National Accounting System Planned

HK1902023191 Beijing CHINA DAILY in English
19 Feb 91 p 2

[By staff reporter Zhang Yuan]

[Text] China is to further strengthen its ties with foreign statistical organizations over the next few years in order

to learn about their advanced methods, technology and management expertise. The ties will also help prepare China for setting up a new national accounting system for the economy, CHINA DAILY learned yesterday.

The new system, which is scheduled to be fully operational in 1992, would combine the advantages of China's traditional national accounting system with those of the western system, a senior official with the State Statistics Bureau said.

Shao Zongming, deputy head of the bureau, told CHINA DAILY in an exclusive interview that the aim of the move was to ensure that the system suited the demands of the country's economic development which was shifting from a purely planned economy to a "planned socialist commodity economy." It was also being carried out, he said, to better reflect the objective operation of the national economy.

He said that China's current national economy accounting system was based mainly on the Soviet model—a material product system (MPS) which, in accordance with Marxist theory on social reproduction, covers the five key material production fields of industry, agriculture, transport, commerce and building.

The old system, which had been in use since the early 1950s, laid particular emphasis on quantity, namely output value, but ignored the non-material production sectors, such as the service industry which is now flourishing throughout China, Shao said.

Nor did the old system pay enough attention to efficiency, he added.

The western system, in addition to material production sectors, also covers non-material production fields such as the activities of culture, education, finance, sports, army and government offices as well as the service industry, he said.

For this reason, he said, China would introduce western methods, technology and management expertise into its value and price statistical systems, including its production material statistical system.

But he pointed out that the new national economy accounting system would not go against the Marxist theory of social reproduction.

To avoid any possible recession or risk of the economy overheating, the State Statistics Bureau is also experimenting with a national economy objective prediction system, he said.

Shao said his bureau would join more international statistical organizations in the future, including the International Comparable Product (ICP) and the Purchasing Power Price (PPP) bodies.

Furthermore, he said, China was willing to expand its cooperation in the statistics field with more foreign counterparts.

The bureau would send representatives this year to attend the conference of the Asian-Pacific Statistics Committee in Bangkok and the advisory meeting of the UN's Food and Agriculture Organization (FAO) in Rome.

Shao disclosed that a major leader of the bureau would pay an official visit to Germany later this year to explore the possibilities for bilateral cooperation on statistics between the two countries.

The bureau, at the request of the UN, would also send its population statistics experts to some countries in the Asian-Pacific region to help them conduct their census this year.

Meanwhile, China was to train agricultural statisticians for some Asian-Pacific nations this year, he said.

Shao also disclosed that China would hold the 50th annual meeting of the International Statistics Society in Beijing in 1995. This would be the first such meeting to be held in China, he said.

China has already signed statistics cooperation agreements with 12 countries, including Japan, France, Italy and Australia, and has document exchange relations with more than 30 countries in the world.

In the past 10 years, the bureau has also received a great deal of help from the UN as well as other international organizations and quite a few foreign countries. Overseas aid for China's statistical departments now stands at more than \$30 million, he said.

Marketing Research Association Formed

*OW3003130991 Beijing XINHUA in English
1240 GMT 30 Mar 91*

[Text] Beijing, March 30 (XINHUA)—The China Marketing Association was set up here today.

Sun Shangqing, president of the association and deputy director of the State Council's Research Center for Economic, Technological and Social Development, said the association will facilitate research of market theory, popularize marketing knowledge, introduce foreign research on marketing and improve the level of the commercial activities of enterprises.

Made up of marketing specialists, entrepreneurs and managers, the association will provide consultancy in exploring domestic and international markets. It will provide assistance with marketing investigations, marketing information, help to expand regional economic co-operation, and assist in the development of trade between Chinese and foreign enterprises.

China now has several thousands of marketing specialists and many universities and colleges have set up economic management departments which offer courses

in marketing. In addition, a large number of enterprises have established departments to conduct market research.

Increases Reported in Total Retail Sales

*HK1803020991 Beijing CHINA DAILY in English
18 Mar 91 p 2*

[By staff reporter Zhang Yuan]

[Text] China's total retail sales grew in the first two months of this year to hit 152.7 billion yuan (\$29.36 billion).

A report released yesterday by the State Statistical Bureau shows the figure represents a 14 percent increase compared to the same period of last year and is also 4.7 percentage points higher than the figure for the fourth quarter of 1990, thus indicating some recovery from the sluggish market which plagued the economy in 1990.

Of the total retail sales in January and February, consumer goods were responsible for the lion's share, accounting for 141.5 billion yuan (\$27.21 billion) in sales, up 15.1 percent from the same period last year.

But, the report said, retail sales of materials related to agricultural production saw only a slight 1.4 percent increase to reach 11.2 billion yuan (\$2.15 billion).

The report said that the retail sales rise in January and February was "nationwide."

The Beijing Municipality and Shandong Province took the lead, however, as Beijing reported a 22.4 percent rise in retail sales and Shandong reported a 22.2 percent rise. During the two month period, 20 other places, including Shanghai, Guangdong, Zhejiang and Hebei, reported that retail sales were up between 10 to 20 percent.

"For the first time since last year," the report said, "retail sales of State-owned firms surpassed those of individual sellers in the past two months".

During January and February, retail sales by State-owned firms rose by 17.1 percent, which was 1.2 percentage points higher than the sales by private commercial businesses, the report said.

According to the report, sales of edible commodities, such as grains, oil and pork, all increased between 10.7 percent and 18.6 percent.

Retail sales of clothes, colour television sets and washing machines rose by 7.7 percent, 51.1 percent and 24 percent, respectively. Meanwhile, retail sales of electric fans and refrigerators plunged by four to six percentage points, the report said.

The report attributed the growth in retail sales over the past two months partly to the Spring Festival, the most important Chinese holiday, which fell in February this year.

During the festival period, which is usually a peak season for sales, commercial departments throughout the country organized colourful sales exhibits to promote sales, the report said.

Meanwhile, purchasing by social groups, such as governmental offices and institutions, "continued to grow remarkably" in January and February which contributed 1.8 percentage points to the 14 percent increase in retail sales this year, and the report.

In January and February, spending by social groups reached 12.79 billion yuan (\$2.45 billion), up 22.9 percent from the same period last year.

Moreover, the report said, the sizable 16.4 percent growth in industrial output in the first two months of the year and the amount of new commodities on store shelves also stimulated buying activities.

The report pointed out that retail sales in the first two months of 1990 showed a "negative increase."

PROVINCIAL

Northeast Provinces Lag in Economic Development

OW2203150591 Beijing XINHUA Domestic Service
in Chinese 0309 GMT 20 Mar 91

[By reporters Zhao Yuqing (6392 3768 1987), Liu Guangjun (0491 1639 6511), and Ma Yi (7456 5030)]

[Text] Beijing, 20 Mar (XINHUA)—The three northeastern provinces, which used to lead the nation in economic development, have encountered difficulties in developing industrial production over the past few years. Heilongjiang, Liaoning, and Jilin last year respectively placed second, fourth, and fifth from the last in terms of industrial growth. They also experienced sagging economic results. This abnormal situation, dubbed the "Northeast Phenomenon," has aroused attention in all sectors.

According to statistics, the total industrial output value of the three provinces inched up by a mere 0.6 percent in 1990, which was far below the national average of 7 percent. Profits and taxes achieved by state-budgeted enterprises dropped by 25 percent to 45 percent, which were significantly higher than the average national decline of 18.5 percent. Although industrial production picked up in January and February of this year, the three provinces still have to overcome their difficulties.

The northeast is China's "industrial giant." In terms of economic might, the three northeastern provinces have over 1,700 state-run large and medium-sized enterprises, including the Daqing Oil Field, the Anshan Iron and Steel Complex, and the No. 1 Automotive Plant, which together account for one-seventh of the national total. Their machine-building, metallurgical, petroleum, coal,

chemical, and building materials industries play a decisive role in the nation. In terms of conditions, the three provinces abound in natural resources, have well developed communications networks, are scientifically and technologically strong, and enjoy tremendous advantages in economic development.

The "industrial giant's" abnormally halting and sluggish pace has provoked the following thoughts:

—The northeast's industrial structure is "top-heavy." The region's heavy industrial output value accounts for two-thirds of the total, and most of the products are large machinery and equipment and basic raw and semifinished materials. Like a "heavily laden" ship incapable of turning around, this industrial structure cannot adapt to drastic market changes triggered by the state's efforts to curtail capital construction and practice economic readjustment.

—Large and medium-sized enterprises constitute a large economic sector in the region. The tasks outlined in mandatory state plans are heavy, and the operational mechanism is rigid. Many products are sold at fixed prices, while raw and semifinished materials are bought at negotiated prices. Because of this practice of "buying high and selling low," Liaoning Province alone had to spend an additional 3 billion yuan last year.

—Most of the key enterprises in the region were established during the "First Five-Year Plan" period. After having dedicated themselves to national construction for "the good part of their lives," they have exhausted their "youthful energy," worn down their equipment, and lagged behind technologically. Because they cannot retool themselves on a large scale, two-thirds of their equipment is below the advanced national levels.

Some people portray the northeast as a "chained giant," whose limbs and mind have been chained. In the arena of commodity economy, the region evidently is less dynamic than the coastal open areas in the south. At some trade fairs hosted last year by the three provinces to promote sales, enterprises outside the region played mostly "leading roles," while local companies served as "utility men." A number of advanced enterprises in the northeast, including the Jilin Chemical Industrial Company, the Shenyang Cable Factory, and the Harbin Boiler Plant, distinguished themselves by carrying out reform energetically. However, some enterprises have not yet discarded their traditional production and economic modes, and have yet to initiate measures to invigorate the economy.

The "Northeast Phenomenon" has aroused a sense of hardship among the 99 million northeasterners. In particular, it has caused enormous ripples in leading economic departments and economic theoretical circles. People in these departments and circles have suggested that the fundamental way to restore the "industrial giant's" prowess lies in deepening reform, readjusting the economic structure, and invigorating large and

medium-sized enterprises in a down-to-earth manner. To this end, Heilongjiang Province has formulated eight measures to enliven large and medium-sized enterprises, and Jilin Province has begun to take a "big step" toward readjusting the economic organizational structure and the product mix. Liaoning Province, meanwhile, is in the process of organizing discussions by economists and entrepreneurs to study the root causes of the "Northeast Phenomenon" and to further emancipate the mind.

Gansu Economy Improves 1986-1990

*HK2602020391 Lanzhou Gansu Provincial Service
in Mandarin 2300 GMT 23 Feb 91*

[Text] Our province's supply, marketing, and financial undertakings developed rapidly during the Seventh Five-Year Plan.

Within a period of five years, the accumulated commodity output value reached 12.6 billion yuan; the net commodity sales totaled 12.4 billion yuan; more than 350 million yuan was turned over to the state in the form of taxes. These figures represent a 93-percent increase, an 89-percent increase, and a 63-percent increase respectively over the Sixth Five-Year Plan and constitute a contribution to the economic development of the whole province.

During the Seventh Five-Year Plan, our provincial supply and marketing cooperative and its affiliated units withstood the market test and other types of tests [words indistinct]. More than 60,000 cadres, staff, and workers engaged in supply and marketing work met difficulties head-on, worked very hard, and successfully guaranteed the supply of chemical fertilizer, farm chemicals, and farm-oriented plastic film, thus making their contributions to reaping a good agricultural harvest this year. [words indistinct] The supply and marketing cooperatives at all levels provided a series of services and played a guiding role in production and a mainstream role in circulation. Within a period of five years, the provincial supply and marketing cooperative and its affiliated units put a total of more than 17 million yuan into circulation, trained more than 120,000 backbone technical personnel among peasants, provided more than 5.2 million kilograms of improved crop strains, built 43 backbone commodity production bases, increased peasants' income by a total of 2.6 billion yuan, built and extended more than 140 various types of operation and service networks, [words indistinct], and increased transportation capacity by more than 100 percent, thus greatly improving production-oriented services and strengthening their own regulatory and control role.

Jiangsu Counties Report Income Increases

*OW0204105191 Beijing XINHUA in English
0815 GMT 2 Apr 91*

[Text] Nanjing, April 2 (XINHUA)—Three counties in Jiangsu Province reported that their financial income last year topped 100 million yuan respectively.

This has brought the number of counties with revenue exceeding 100 million yuan in the province to 25, accounting for one-third of the province's total, and ranking the province first in the country.

A provincial official said the total financial income of these counties accounted for 34.76 percent of the province's total last year.

He attributed the good results to the local financial and tax departments, strengthening management while expanding social service, and adopting measures to boost industrial and agricultural production.

According to the official, Wuxi County ranks first among the 25 counties; its annual financial income exceeds 400 million yuan.

Qinghai Governor Views Enterprise Rectification

*HK2202132391 Xining Qinghai Provincial Service
in Mandarin 2300 GMT 21 Feb 91*

[Text] On the morning of 21 February 1991, the provincial company screening and rectification leading group called together leading comrades of relevant provincial departments and bureaus, as well as various major companies, for a discussion on issues concerning the legal operation and healthy development of companies.

During the past two years of screening and rectifying various companies, a total of 220 companies have been abolished, annexed, rectified, or transformed, making up 22 percent of the total number. More than 300 criminal cases have been investigated and dealt with, and the situation wherein there were too many companies in the circulation sector has been brought under effective control. Problems of making no distinction between political organs and enterprises, and between official and commercial sectors in some enterprises have been resolved. Some illegal activities have been investigated, dealt with, and checked, such as the diversified management and resale of means of production and major commodities for profit, and exploitation of circulation links to reap staggering profits. As a result, the management orientation and scope of enterprises engaged in the circulation sector have been further clarified, and a normal market order gradually set up. At present, the work of screening and rectifying companies has entered its third phase, wherein the work focus is to strengthen the internal building of various kinds of companies and set up and perfect various rules and regulations so as to enable companies to take to the road of legal operation and healthy development.

Governor Jin Jipeng attended and addressed the meeting. He said: Screening and rectifying various companies is not aimed at narrowing the scope of the market, but at bringing further prosperity to the market. It is necessary for various companies to strengthen their internal rules and regulations. The fundamental goal of the legal operation of companies is to invigorate their business operation, bring about a flourishing market,

enrich the life of the masses, and promote the resource exploitation and economic construction of our province.

At the meeting, the provincial company screening and rectification leading group presented each relevant provincial department and bureau as well as major company with a book on the experience in the building of the company management system.

Qinghai Holds Meeting on Township, Town Enterprises

HK2003122791 Xining Qinghai Provincial Service in Mandarin 2300 GMT 19 Mar 91

[Excerpts] The provincial work meeting on township and town enterprises closed in Xining yesterday. The goals to be achieved during the Eighth Five-Year Plan period concerning township and town enterprises forwarded at the meeting are as follows:

The total output value of the province's township and town enterprises will reach 900 million yuan and, hopefully, over 1 billion yuan; the total number of staff members and workers in this sector will be 160,000; and the taxable profit will reach 91 million yuan.

During the Seventh Five-Year Plan period, our province's township and town enterprises developed tremendously. Despite the difficulties that plagued the township and town enterprises last year, the total output value, nevertheless, increased to over 640 million yuan, up 8.58 percent over the previous year. The total income, as well as the tax turned over to the state, also increased.

During the same period, however, there were also some problems, which mainly found expression in the fact that many township and town enterprises had poor overall quality, low management competence, backward technology, outmoded equipment, poor product quality, high production costs, and low adaptability and bearing capacity. Generally speaking, the township and town enterprises in different places are developing in an unbalanced manner, their industrial structure still cannot measure up to what is required for exploiting our province's resources, and these enterprises' development pace is on the slow side. [passage omitted]

Vice Governor Ma Yuanbiao pointed out at the meeting: The Eighth Five-Year Plan period's general guiding principle is: Conscientiously implement the principle of giving active support to the township and town enterprises, make rational planning, provide correct guidance, step up management, focus on economic efficiency, pay equal attention to internal and external qualities, consolidate and improve the existing enterprises and actively develop new ones; in the Eighth Five-Year Plan's first two years—emphasizing quality, variety, and economic efficiency—grasp the rectification to promote the upgrading of enterprises, pay attention to product quality and technical transformation of enterprises, do a good job of each project to gain development, and seek harmony and development on the basis of stability; in

the remaining three years, expand the scope for the sake of efficiency, start new projects for the sake of speed in order to quicken the development pace, set up some new enterprises in light of local conditions, and develop new products in order to constantly strengthen the township and town enterprises' stamina.

At this meeting, 33 advanced units that distinguished themselves during the "year of enterprise management," an activity carried out among the township and town enterprises all over the province, were commended.

FINANCE, BANKING

Commentator Assesses Financial Problems, Prospects

91CE0294A Beijing ZHONGGUO JINRONG [CHINA FINANCE] in Chinese No 12, 4 Dec 90 pp 7-9

[Commentator's article; responsible editor, Wu Xingdong (0702 5281 2639): "Continuing To Adhere to the Policy of Improvement, Rectification, and Overall Control—A Summary of 1990's Economic and Financial Circumstances"]

[Text] *The year 1990 is almost over! As we are just about to ring out the old year and welcome the new one, a review of the developing circumstances over the past year and a look ahead at our coming tasks is likely to be of interest to many comrades. The following circumstances and exploratory views are presented here for reference only.*

The Current Economic and Financial Situation

What is our current economic situation?

Zou Jiahua [6760 1367 5478], State Councilor and Minister in Charge of the State Planning Commission, recently made the following general appraisal of the current situation in a work report to the 15th Session of the Standing Committee of the Seventh NPC [National People's Congress]: "China's political, economic, and social conditions have stabilized in the past year under the leadership of the party and government and through a united struggle by people of all nationalities throughout China. We have achieved further tangible results in our improvement, rectification, and deepening of reform, and our general economic situation has improved." Premier Li Peng also reaffirmed this at the recent National Working Conference on Industrial Production. Statistics released by the State Statistical Bureau illustrate this in detail.

The results of our improvement, rectification, and deepening of reform can be seen mainly as follows: "Our agricultural output has increased, and we reaped a bumper harvest of grain and food oil this summer; our industrial production has recovered steadily, and our supply of basic manufactured goods has continued to grow; we have better fulfilled our investment in fixed assets, and adjusted our economic structure somewhat; retail commodity sales on our domestic markets have

begun to pick up gradually, and we have clearly curbed inflation; our banks have withdrawn more currency from circulation, and our credit rating has improved; our exports have increased steadily, our imports have continued to be controlled, and our foreign exchange balance has improved. In addition, we have made varying degrees of progress in rectifying our economic order, that in the field of circulation in particular, in areas, such as inventorying and reorganizing companies, and strengthening control over markets and prices." This was Zou Jiahua's work report summary of the improvement and rectification results that we achieved in 1990. These results are obvious to all, and people in many quarters have firsthand knowledge of them.

As to the current major problems and difficulties confronting our national economy, Zou Jiahua pointed out that "Domestic markets are still soft, and some commodity sales are poor; the money put into circulation is being grabbed up, and there is still a shortage of circulating funds; adjustments of our product mix and industrial structure are going slowly, and our products are still too low-tech; enterprises are experiencing difficulties due to the external environment, and their internal management and administration is poor; our poor economic efficiency has not yet improved, and our national fiscal difficulties are great." It should be pointed out that some of these problems and difficulties have existed and been accumulating for many years, while others have become more glaring and intensified since we implemented the policy of improvement and rectification.

As to our 1990 financial situation, most comrades note that while it apparently could be called basically stable, certain deep problems still exist. Since 1989, the financial sector throughout China has practiced a monetary and credit policy of tight control, our credit work has firmly adhered to the principle of "maintaining overall control, adjusting structures, ensuring priorities, cutting back in all areas, making timely adjustments, and improving efficiency," and we have taken a series of positive and flexible steps, such as suitably increasing loans, lowering bank interest rates on savings and loans, resuming a trusteeship form of accounts settlement, and launching campaigns to clear up "triangular debts," which have achieved definite results. Although we planned to increase loans throughout China by 200 billion yuan in 1990, and increased them over 60 billion yuan in the first half of 1990, we can project from historical laws and 1990's actual conditions that our planning to increase loans 200 billion yuan for all of 1990 may have been inadequate. Our initial analysis of our major current financial problems and difficulties is that increased loans are far exceeding our economic growth. Statistics up to the end of September 1990 show that while banks loaned 41.5 percent more money to industrial production enterprises, our GVIO [Gross Value of Industrial Output] increased only 3.1 percent. Loans have not played a clear role in speeding up economic growth, have been used inefficiently, and have not had the desired effect of speeding up credit fund

turnover. Most of the loans injected into enterprises by banks are being tied up in overstocked products. The "triangular debts" that began to gradually increase and spread among enterprises in the first half of 1989 are now perplexing to both banks and enterprises, and key enterprises with good economic efficiency in particular. Another problem that needs attention is that as banks have been putting currency into circulation faster since July, and there have been calls in theoretical circles to "make funding more flexible" and "fully stimulate the market," the continuation of such conditions is likely to exert certain pressures on moves to stabilize the currency and the economy, and might even clash with the results achieved in the previous stage of the "double tight" policy. There seems to be a certain amount of truth in the way some comrades are summing up the current economic and financial situation as half joy and half worry, but quite grim.

A correct approach to the situation will give us a foothold and basis for proceeding with our work. It should be acknowledged that people are approaching the current situation quite differently. Premier Li Peng spoke about the approach to the current situation by saying that "I prefer the doctrine that everything has two aspects over that which emphasizes only one aspect." I would like to note that as Comrade Zou Jiahua's above general analysis of the current economic situation is quite apropos and pragmatic, it should be generally accepted.

Proper Approaches to Certain Key Current Issues

1. The issue of our slow industrial production operations and market commodity sales slump, is a new one that has appeared since we implemented our improvement, rectification, and "double tight" fiscal and monetary policies, in contrast to our production and marketing situation of previous years when our economy was overheated. People have noted the need for a detailed analysis of the nature and extent of this issue, in order to keep our ideological approach from becoming too oversimplified and absolute. In a certain sense, maintaining an appropriate production growth rate (by curbing the overheated economy) and normal commodity sales, is precisely the aim of our improvement, rectification, and "double tight" policies. In other words, the "cooling down" that has occurred in our industrial production and market sales has rational implications. Of course, there are side effects beyond a certain degree, and the current problem is that our economy "cooled down" too suddenly for a time. On the other hand, it must also be understood that our current industrial production and commodity sales problem is basically a stagnation effect from too many years of an imbalanced economic structure and poor economic efficiency, as well as our macroeconomic retrenchment (our improvement, rectification, and "double tight" policies). In other words, it is the reoccurrence of an old problem under new objective conditions, similar to the diseases that might develop under the right conditions after the human body is infected with certain viruses or bacteria. For instance,

when market demand was too brisk, industrial production experienced "disregarding of minor problems to achieve speed" and pursuance of speed exclusively but, since market demand was reduced, comparisons and competition have resulted in overstocking of finished products by some enterprises, a market sales slump, and even difficulties in maintaining production among some enterprises. This is a temporary phenomenon and, in a certain sense, the desired result of our improvement and rectification policy. As far as industrial enterprises are concerned, the purpose of our improvement and rectification policy was to spur enterprises to change their emphasis from speed to efficiency and from extensive to intensive operations, and to enable China's industry to reach new heights through these changes. This was both pressure and motivation. Many of China's industrial production enterprises are now experiencing these rigorous, painful, and even thoroughly transforming changes. While these changes are excellent and promising, and must be carried out firmly, we must of course exercise tactical caution and careful guidance, so that they are carried out more smoothly. Moreover, as to its dominant aspect, the sales slump of certain commodities was the inevitable outcome of many years of an overheated economy and an imbalanced industrial structure under tight macroeconomic conditions. For instance, the current slow sales of certain building materials and electronics goods are linked to our capital construction cutbacks, and the slow sales of certain expensive consumer goods and low-quality high-priced commodities are linked to the reduction of social group purchasing power and the control of overall demand. While these cutbacks are logical and should not be regarded as completely negative, we naturally must also do more work to improve external conditions and help enterprises improve their internal conditions, in order to make it possible to stimulate markets.

2. A detailed analysis must also be made of the issue of enterprise circulating fund shortages. Based on information supplied by the departments concerned, the planned 16.1 percent increase in 1990 bank loans, and the anticipated 6 percent increase in our GVIAO, in which loan increases far exceed our economic growth, shows that banks are not providing too few funds to enterprises. The same situation has prevailed for some years, with our GVIAO increasing at an average rate of 13.5 percent a year, but bank loans increasing at an average rate of 23 percent a year from 1984 to 1989. Even so, many industrial and commercial enterprises are still complaining about fund shortages. According to the analysis of the departments concerned, the current enterprise fund shortages are caused not by too few bank loans, but by the following things:

- Enterprise circulating fund composition is irrational. Of the three circulating fund components of raw materials, products, and finished products, most funds are tied up in overstocked finished products.
- The amount of circulating funds under enterprise control has decreased. Since the State Council decided

to put enterprise circulating funds under centralized bank control in 1983, public finance has stopped appropriating increased enterprise circulating funds, and new enterprises have stopped budgeting circulating funds. From 1983 to 1988, the percentage of all circulating funds under industrial enterprise control dropped from 33.5 percent to 20.7 percent, while their GVIO increased 80 percent, and they were dependant on bank loans for all of their fund needs beyond the circulating funds under their control.

- The currency appreciation of enterprise inventories that was caused by price increases diminished instead of correspondingly replenishing the amount of circulating funds under enterprise control.
- The serious misappropriation of enterprise circulating funds has eroded them sharply. For instance, they have been used for things, such as making up various subsidies and policy losses that public finance should have but did not allocate, making up enterprise fixed assets investment shortages, and excess distribution.

This shows that the true causes of enterprise circulating fund shortages are poor management and administration within enterprises, as well as external conditions.

3. As to the issue of synchronized growth of bank savings and loans, the basic bank credit balance in recent years has been a synchronized growth of savings (public funds and individual savings) and loans. While a big increase in savings generally provides a source of funds for banks and is a positive thing, it must also be analyzed in detail. In the first half of 1990, bank savings increased 120 billion yuan, or 80 billion yuan more than they did in the same period in 1989. It is worth noting that part of this huge increase in savings was derived from bank loans, and from the basic currency put into circulation by the People's Bank of China (PBOC) in particular. Statistical projections by the departments concerned show that roughly 22-25 billion yuan of bank savings are derived from every additional 10 billion yuan of basic currency that the PBOC puts into circulation. As the PBOC put 17 billion yuan more into circulation in the first half of 1990 than in the first half of 1989, the statistical projection is that this alone will increase bank savings by 37.4-42.5 billion yuan. This shows that banks should consider the factor of derived savings when planning funds, should not make money too tight, and should study the method of "increased savings makes more loans possible."

4. The need to clear up "triangular debts" is a negative result of our tight monetary and credit policies. According to statistics from the departments concerned, there are over 240 billion yuan in debt arrears among enterprises throughout China. All provinces, autonomous regions, and municipalities, as well as the State Council, have achieved a certain amount of success in emphasizing the clearing up of "triangular debts" in 1990. Banks have injected about 10 billion yuan as starter funds to help in the clearing up process. The

problem of "new triangular debts accumulating after old ones have been cleared up," is due to not having paid enough attention to the source of these arrears, i.e., not having resolved the deeper issues involved. It seems that it is not enough to simply clear up debts, but that such stopgap measures must be combined with a permanent solution, with the emphasis being placed on finding a permanent solution. Analysis shows that the major deeper causes of "triangular debts" are as follows:

- The necessary investment funds for capital construction projects have not reached the units that need them. Capital construction units rely on owing production enterprises for equipment supplies and construction units for project labor to start capital construction projects, and production enterprises and construction units rely on bank loans and arrears on goods payments to the units concerned to continue production. This is how many "triangular debts" accrue.
- As the financial sector does not allocate funds on time to make up enterprise losses, enterprises are forced to default on payments to other enterprises to maintain production.
- Due to their irrational industrial structure and product mix, some enterprises greatly overstock products on one hand, while continuing production on the other. When enterprises cannot get loans from banks, they adopt methods, such as defaulting on goods payments to the enterprises concerned, to maintain production.
- Another cause of arrears is that a few enterprises and banks have a serious ideological problem of selfish departmentalism, and are untrustworthy.

This shows that the arrears among enterprises are very complex, and involve issues in areas, such as management and administration, industrial structure, finance, and capital construction, which must be classified and resolved one by one to achieve the desired results. Experience has proved that arrears cannot be cleared up by simply relying on banks to inject starter funds, but that the source of the problem must be tackled in a comprehensive way, which will certainly not be easy, and will take time.

Basic Issues That Must Be Clarified

In light of the social effectiveness of our policy of improvement and rectification and the new factors and issues that have appeared in our national economy in the last two years, we must clearly understand and grasp the following basic issues in our economic and financial work:

1. China's basic order of overall demand exceeding overall supply is likely to exist for a long time, and is not likely to be easily changed within a short period of time, because China is a large country with a population of over 1.1 billion people and a weak economic base in

which problems, such as an overheated guiding economic ideology and excess distribution of the national economy, have appeared repeatedly. We must base our economic and financial principles and policies on this order. While this basic order has begun to improve since we implemented our improvement, rectification, and "double tight" policies, there is still no sign of basic change, and even less signs of "inadequate demand" or "supply exceeding demand." The sales slump in specific categories or varieties of commodities can be explained only by problems in the area of economic structure and enterprise management and administration, but should not be regarded as a change in our overall supply and demand order.

2. While the "Resolution" by the Fifth Plenary Session of the 13th CPC Central Committee to improve, rectify, and deepen reform of our national economy was correct and essential, it has achieved tangible results in the last two years and must continue to be implemented firmly. Most of its stipulated six objectives that were to be achieved in three years of improvement and rectification have not yet been fully accomplished, and we are still faced with a tough job. The new factors and issues that are appearing in our economic work are chronic maladies, accumulated over many years, are being exposed by new conditions and are a sign that improvement, rectification, and deepening of reform have not yet achieved their desired results. The source of our current economic problems, such as the market sales slump and enterprise fund shortages, must be found, so that we can go on with improvement, rectification, and deepening of reform.

3. The policy decision on our fiscal and monetary policy to "keep our double tight policy unchanged, but appropriately revise its extent," was absolutely correct and must not be changed rashly. The basic spirit of this policy decision was to continue to adhere to the premise of improving our overall control, while putting our work emphasis on appropriate adjustments in degree, combining principles with flexibility, and paying attention to emphasizing work timing and opportunities. The details of this policy decision were to "maintain overall control, adjust structures, ensure priorities, cut back in all areas, make timely adjustments, and improve efficiency." The policy of overall control must proceed from promoting sustained, steady, and coordinated economic growth, and be combined with improvement, rectification, and deepening of reform, instead of remaining at the level of "treating symptoms but not the disease," or simply making an issue of the scope of credit.

4. Our current work must proceed in a down-to-earth manner. Our many current economic problems can be resolved not by money alone, but rather by working effectively, rationalizing relations, and resolving contradictions. The two basic key economic issues that affect the overall situation are our irrational economic structure and our poor economic efficiency. The proposals by the concerned leading State Council comrades, to make great efforts in the immediate future to adjust our product mix, and to make up our minds to improve our

economic efficiency, premised on maintaining stability and overall control, are the two current work priorities that we must master. In addition, in order to stabilize the economy and stimulate markets, we must procure agricultural sideline products conscientiously by, instead of simply emphasizing procurement of the key agricultural products of grain, cotton, and cooking oil, doing a good job of organizing our procurement of other cash crops and agricultural sideline products as well. This will increase peasant income, while helping to stimulate rural markets. We must also help the commercial sector to appropriately increase its stocks of commodities, which will also help to alleviate the difficulties of overstocking of manufactured goods and shortages of funds. In summary, there are many tasks that we must accomplish, deal with one by one, and emphasize conscientiously, in order to achieve the desired results.

Improved Professionalism of Tax Collectors Cited

91CE0375A Beijing JINGJI RIBAO in Chinese
14 Feb 91 p 3

["Jin Xin (6855 9515), Director of State Administration of Taxation, Talks About Steady Growth of Country's Tax Revenues and Greater Understanding of Taxation During Seventh Five-Year Plan"]

[Text] The country's industrial and commercial tax revenues showed steady growth during the Seventh Five-Year Plan. During the past five years, industrial and commercial tax revenues nationwide increased by an average 10.4 percent annually, total revenues amounting to 808 billion yuan in a 421.3 billion yuan, or 109 percent, increase over Sixth Five-Year Plan total revenues. Industrial and commercial tax receipts amounted to more than 52.8 billion yuan more than during the Seventh Five-Year Plan for 107 percent fulfillment of plan, reaching the plan level for 1990 one year ahead of schedule. In addition, during the past five years, tax agencies also organized the collection of more than 377.5 billion yuan in state-owned enterprise income taxes, state energy and transportation key construction funds, budget regulation funds, and tobacco and alcoholic beverage taxes. Various tax agency-organized tax receipts totaled 1.1855 trillion yuan during the Seventh Five-Year Plan, accounting for more than 90 percent of national fiscal revenues. At the same time, the economic regulatory function of tax collections markedly increased; the building of the tax system was gradually perfected; new advances were made in the use of allow in tax administration; and tax collection administration steadily improved for marked achievements in building the corps. In short, we are advancing toward the goal proposed five years ago of "gradually building a scientific socialist tax theory system, a tax system that is consistent with the needs of a planned commodity economy, a strict, and a scientific tax collection administrative system, and the building of a cadre corps in keeping with requirements of the four modernizations that is possessed of ideals and is disciplined.

Heartening Results From Tax Collection Theoretical Research. A summarization of the country's practical experiences in tax collection enriched tax collection theory, new breakthroughs being achieved on some important theoretical problems in tax collection. In particular, the influence of "no tax theory" was further eradicated, a deeper understanding gained about the application of tax collection methods to the correct handling of distribution relationships between the state and enterprises. As a result, theory about the collection of income taxes from socialist enterprises under ownership of the whole people continued to be perfected. Advanced studies were made of some important problems in tax collection work to provide a theoretical basis for guiding tax collection work, formulating policies, laws, and rules and regulations, and for giving impetus to tax collection reform.

Building of a New Tax System In Keeping With Progress in Reform That Is Based on Fair Tax Burdens, That Promotes Competition, and that Embodies Industrial Policy. In order to adapt to and promote development of a planned commodity plan during the Seventh Five-Year Plan, tax collection has to be rather substantially reformed. One is a reform linked to the widening of enterprises' autonomy that enables enterprises to compete under equitable tax burdens, namely changing state-owned enterprises away from payment of profits to the state to the collection of income taxes according to law. Second is changing the collection of a product tax from numerous industries to the collection of a value-added tax in order to eliminate duplicatory tax collections, thereby advancing the development of specialized production. Third is the taxing of bonuses, individual income adjustment taxes, and income taxes on individually owned industries and businesses as well as on privately owned enterprises for the purpose of regulating overly high individual income, and easing contradictions in inequitably social distributions. Different tax rates are to be set for different income levels in the implementation of a progressive excess tax system. Fourth is the building and step-by-step perfection of a tax system having to do with foreign nationals, and the continuous formulation of a series of preferential tax collection regulations for the purpose of advancing the opening to the outside world, improving the foreign businessman investment climate, and helping bring into China foreign capital and advanced technology. While safeguarding the country's rights and interests, the principle of a lowering of tax burdens, a broadening of preferential treatment, and a simplification of procedures is to be followed in this endeavor. As of the end of 1990, there were more than 26,500 state-approved foreign businessman venture enterprises in the country, and some marine petroleum tax collection agencies were in being and were continuing to be established to meet needs associated with tax collections from foreign nationals. We also signed agreements or draft agreements on the basis of equality and mutual benefit with more than 30 countries for twofold reduction or exemption from taxation, and to plug tax loopholes. This provided tax support for the

development of bilateral economic exchanges and the development of trade relations. In a word, establishment of the aforementioned new tax system substantially realizes a change away from a unitary tax system to a complex tax system in which flow taxes and income taxes are paramount in association with other forms of taxation. It not only enhances taxation's function in amassing revenues, but the economic regulatory and monitoring function of taxation has also been markedly enhanced. The system meets needs in the development of a socialist planned commodity economy, and in reform and opening to the outside world. It is strongly coordinated with reform of the fiscal, price, foreign trade, science and technology, and investment systems to play an important role in the implementation of national industrial policy, readjustment of the economic structure, increasing enterprises' vitality, controlling overly rapid increase in consumption funds and the inflation of the scale of investment, ameliorating inequitable social distribution conflicts, and promoting improvements of the economic environment and rectification of the economic order and the deepening of reform.

Collection and Administration Gradually Placed on a Path of Legal Regulation of Taxes. Since taxation is directly associated with the distribution and redistribution of national income, there are many points of contention about the distribution of various benefits. Problems exist in whether taxation should be heavy or light. The amount of taxation deemed appropriate is itself a conciliation of conflicts in the distribution of benefits. During the past several years, we have employed education about paying taxes according to law and comprehensive efforts in the gradual legalization, systemization, and standardization of tax collection and administration. Today an unprecedented new situation has come about in tax collection and administration from theory to practice, from regulations to methods, from organizations to personnel, and from coordination among departments to public support for taxation. First has been promotion of a three-way separation of tax collection, administration, and investigation, or a two-way separation of collection and administration from investigation. This way of doing things both helps improve tax collection and administration with regard to taxpayers, and it also enhances the limiting mechanism within tax agencies, advancing the building of clean government in tax agencies. Second, the collection of taxes is currently changing from the long-standing practice whereby tax cadres went from door to door to get tax compliance to placing the burden on taxpayers to file returns and pay taxes to tax agencies on time and in full for a historic change. This is not just a change in the method of paying taxes; it is also a conceptual change, first of all. Third is the step-by-step building and strengthening of tax collection and administration laws, rules, and regulations, collection and administration standards gradually taking shape from control over sources of taxes to the deposit of tax funds in the treasury, from the collection, reduction, remission, and refund of taxes to the adjudication of tax

infringements, and from the collection and administration of tax collections from large- and medium-sized enterprises to scattered individual tax collections. This includes such matters as promoting a system of open dealings on taxes, and a collegiate system for tax reduction and remission. Administrative review regulations for tax matters have been or are in process of being studied and formulated. Drafting of a tax collection and administration code has been completed and sent to the State Council for consideration and approval. Fourth is constant strengthening and modernization of collection and administration methods. Fairly effective measures exist for investigating and handling tax evasion, tax cheating, and opposition to the payment of taxes. Nationwide, 2,235 tax investigation offices, and 260 tax enforcement stations have been set up. Some places are also trying out tax courts, which play an important role in safeguarding the solemnity of the country's tax laws and tax collection procedures by punishing and frightening tax cheats and tax opposers. Tax consultation and tax protection networks dot cities and the countryside, and tax consultation and tax protection personnel have become an important force to be reckoned with. Fifth, tax agencies at all levels have established collection and administration agencies. Tax investigation squads at the county level and above number 4,768. There are 3,343 tax investigation stations of all types that effectively carry out the important function of halting tax cheating and tax evasion. Most cities and counties have set up receipt-issuing control agencies for an improvement in receipt control work.

Marked Achievements From the Founding of a Tax Cadre Corps. Efforts to train a tax cadre corps that is both politically and professionally outstanding is not just the premier problem for doing good tax collection work, but it also of fundamental importance for the development of taxation work. The fundamental goal of the 1985 national conference on taxation work was establishment of a rather high quality tax cadre corps. The 1988 Zhuzhou Political Work Conference further clarified this goal as the establishment of a tax cadre corp possessed of ideals, ethics, education, and discipline. When hearing reports on tax collection work in April 1986, the CPC Central Committee Secretariat called for greater ideological and political work in addition to good performance in tax collection work. Tax agencies at all levels eradicated the influence of bourgeois liberalization and various kinds of interferences that weaken ideological and political work, maintained a close correlation between ideological and political work and professional work, overcame "compartmentation of related functions," brought into full play the service and support role of ideological and political work, and aroused the zeal and creativity of the broad masses of taxation personnel to exceed fulfillment of tax collection tasks for two years running for which they received a citation from Premier Li Peng. Take 1989, for example, when 934 tax agencies at the county level and above were cited by local people's government at all levels as "accomplished" units, and 3,533 were cited as "accomplished" taxation offices (or

units). This is 13.3 percent of all tax offices (or units) nationwide. Fifteen comrades in the tax system nationwide received citations as "nationwide advanced workers" from the State Council. Three grass-roots level CPC branches were designated "national advanced grassroots party branches, and 100 units were evaluated as model and advanced collectives in the national tax system by the Central Committee Organization Department. A total of 15,044 units and 62,613 comrades were designated advanced collectives and advanced individuals by peoples governments and tax agencies at all levels. All jurisdictions also worked hard at on-the-job training and providing specialized training for some cadres. As a result, the professionalism and the practical work capabilities of taxation cadres improved very greatly. Today, 67,857 people in the tax system nationwide have received formal schooling, 12,700 have received specialized certification education; 130,918 have received on-the-job training, and 80,666 have been given training prior to job assignment. Among tax cadres nationwide, 18.52 percent have a college education or higher, nearly 13 times as many as during the beginning of the Seventh Five-Year Plan. The steady improvement in the political quality and the professionalism of tax cadres provides fundamental support for the smooth completion of strenuous tax collection work. During the past several years, the tax system has also devoted very strict attention to the building of clean government, distilling basic experiences of courage in taking charge and courage in management by "relying first on education for guidance, relying second on system restrictions, third on supervision and inspection, and fourth on the personal example of leaders." Practice has shown this to be the correct way of going about the establishment of clean government. Acting in the spirit of instructions from the CPC Central Committee and the State Council about the building of clean government, all jurisdictions focused on the situation in their own units in emphasizing regular education in clean government. Numerous local governments also dissected and analyzed classic cases from which they drew lessons. They gave timely "inoculations" for the steady boosting of the political immunity of tax personnel, thereby laying a solid ideological foundation for clean government. In addition, they took account of work realities for the continuous formulation of "five requirements" and "10 prohibitions," for tax officials, as well as an openly run tax system, a reporting system, a cadre rotation and personal responsibility system, and a collegiate examination and approval system for reduction and remission of taxes. They also established a new mutually limiting and mutually advancing system of tax collection and administration that effectively checked violations of the law and discipline, and assured steady improvement in tax practice and tax discipline for the gradual establishment of a fine image and high respect for tax agencies as practitioners of clean government and impartial enforcement of the law.

To summarize our work, we reviewed the experiences that all jurisdictions had created and accumulated, capsulizing them as being of value in the following several regards for reference and application to future work:

First is the need to establish and perfect a tax collection system for energetic promotion of the use of law in administering taxation. The use of law in administering taxation is a fundamental principal in tax collection work from which there can be no wavering whatsoever under any circumstances. In developing a socialist planned commodity economy, people must have a socially acknowledged and uniformly adhered to legal standard in the exchange of commodities. As applied to taxation, this means a tax code. Taxation entails state use of its political authority to make collections in accordance with legally prescribed standards. Clearly, the use of law in the administration of taxation proceeds from the nature of tax collections. Promotion of the healthy development of a socialist planned commodity economy demands strict enforcement of the tax code.

Second, full attention must be given to socialist material civilization and spiritual civilization, "taking hold with both hands so that there are no omissions in either professional or ideological and political work." "Taking hold with both hands" emphasizes the use of powerful ideological and political work as an assurance. The more strenuous the tax collection task, the more firm grip has to be taken on ideological and political work, and it has to be done with an eye to task completion. Only powerful ideological and political work can greatly stir the enthusiasm of the 500,000 tax cadres to make use of their intelligence and talent, enforce the law impartially, and work industriously. This is the only way in which we can be invincible.

Third is the need for wideranging and deep-going publicizing of tax collection to improve everyone's understanding of taxation. With the steady development of the country's socialist planned commodity economy, tax collection has pervaded every realm of social and economic life. Correct handling of the problem of distribution is not just a professional problem. At heart, it is a political problem. Tax collection work is not just a professional task with strong policy implications, it is also a political task that has a bearing on the public in its hundreds of millions. Education about taxation has to begin in infancy so that all citizens gradually come to understand and support tax collection work, and willingly pay their taxes.

Fourth is the need to rely closely on CPC committees and government in every jurisdiction for leadership of tax collection work, and for closer coordination among departments, gaining the understanding and support of all circles in society. Tax collection work has a bearing on all trades and industries; it affects the hundreds of millions of households; it has strong policy overtones, and it is fraught with conflicts. It can scarcely be done well through sole reliance on tax agencies operating as an isolated force. Good performance of tax collection work requires gaining the broad understanding of all relevant government departments and people in all walks of life, as well as the support of the people under leadership of CPC committees and the government at all levels.

The role of tax collection in building the economy, and in reform and opening to the outside world has never been as important as it is today. The far flung tax cadres must continue to carry forward their fine tradition of keeping their eye on the overall situation and courage in carrying heavy burdens. They must rally spirit, do a solid job, and do all they can to pioneer in an effort to increase government revenues, balance the fiscal budget, promote improvement of the economic environment and rectification of the economic order, and deepen reform, making new contributions in assuring smooth implementation of the country's 10-year plan for national economic and social development, and the Eighth Five-Year Plan.

Issues in Tax, Profit Separation Development

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[Article by Li Zhengyi (2621 2973 0001): "My Humble Opinions on the Four Main Problems and Solutions to the Separation of Tax and Profit"]

[Text] Since 1988, one after another, cities like Chongqing, Yiyang, Xiamen, and Chengdu have taken the lead to pilot the system of "separation of tax and profit, after-tax debt payment, and after-tax contracting" in their state-run enterprises. The substance of this system includes either lowering the current income tax rate to a uniform 35 percent or adopting the five-grade above-quota progressive income tax (Xiamen has lowered the income tax rate to 15 percent, similar to the "three kinds of wholly or partially foreign-owned enterprises" in the SEZ's [Special Economic Zones] and abolishing the current regulation tax. It also abolishes the regulations whereby enterprises use their pre-tax profit to pay off fixed asset investment loans and the "two funds" are levied on profit earmarked for debt payment, and it also stipulates the delivery of contractual profit net of taxes. Based on actual practices in the above localities piloting the new system, whether we are looking at the allocation of profit between the state and enterprises and ensuring a steady increase in the state's financial revenues or at promoting rational enterprise investment behavior, strengthening taxation as a constraint, creating the necessary conditions to facilitate the separation of central and local taxes, and even separating the state's socioeconomic management functions from its functions as owner of properties, the system has produced clear results.

But the separation of tax and profit is an advanced, exploratory reform project; it is a fairly difficult undertaking. Looking at the situations in the experimental units and based on forecasts, certain specific reform measures in the pilot program may require fine-tuning. In practice and in the process of popularizing the system, there are four major problems which must be dealt with promptly:

I. On the Issue of After-tax Debt Payment

An important part of the reform to separate profit and tax is to make enterprises pay their debts with after-tax profit instead of pre-tax profit. Experiences gathered in localities piloting the system show that after-tax debt payment is the main obstacle to the separation of tax and profit. How the transition from pre-tax debt payment to after-tax debt payment is handled will determine the outcome of the entire pilot project to separate tax and profit. This issue not only concerns current payment of enterprises' old debts (debts entered into before piloting the separation of tax and profit) but also enterprises' enthusiasm for technological transformations in the future as well as their stamina for continued production and development.

Pre-tax debt payment is the result of unique investment system and historical conditions. There are complicated reasons behind it. Objectively speaking, although pre-tax debt payment undermines the state's ability to control the scope of capital constructions and leads to over-investment, it has played a very positive role in encouraging enterprises to make technological transformations, upgrade their equipment, and replace old products and so on. Data show that 80 percent of the incremental enterprise profits made in the last eight years were attributable to the readjustment of productive capacity and product-mix, and 70 percent of the funds spent on readjusting enterprise product-mix and increasing productive capacity came from loans enterprises paid back with their pre-tax profit. After-tax debt payment shifts the investment risks from the state to enterprises themselves. This of course will have a significant effect on constraining enterprises' expansionary investment behavior and force them to pay attention to investment efficiency, but as a result of the separation of tax and profit, enterprises' share of realized profit is relatively smaller, and to some extent, their ability to accumulate has diminished, the external constraint on their investment is more stringent, and their investments are more risky. Meanwhile, it is not clear who has the property rights to the assets created by enterprise after-tax profit retention and the resulting realized profit, and thus we are faced with two problems:

(1) Enterprises have difficulty paying off old debts.

Pre-tax debt payment encouraged enterprises to invest heavily, and many enterprises had gone overboard with their investments, and that is why today, many are carrying heavy "old debt" burdens and have trouble paying off their debts. Looking at the experimental units, it is estimated that some enterprises have debts they will not be able to pay off in another 30 years. The nature and causes of these old debts are very complicated. Some are loans borrowed when the state was implementing "double loss" fiscal and monetary policies or when it "substituted loans for direction allocations"; some are mistakes caused by the government's erroneous investment decisions, carelessness of banks and management

departments, and enterprises' own greed and recklessness which resulted in too many unprofitable investments. Of course, under the new system where enterprises' debt-paying ability is diminished, it is not fair, nor is it possible, to make them bear the heavy "old debt" burdens left behind by different systems and historical causes. They should take full responsibility. We must resolve the issue of enterprises' "old debt" burdens in a practical and realistic way.

(2) Enterprise investment enthusiasm plunges, and the pace of technological transformation slackens.

Under the system of after-tax debt payment, enterprises generally are more cautious about borrowing money. This to some extent helps control reckless investment and reduces the investment scope. But at the same time, enterprises are much less inclined to make investments now. Under the current tax system, taxes in the circulation sector on the average take up more than half of enterprises' net income, and if we add income tax, profit delivery as contracted, and payments into the energy and communications funds and so on, 70 percent or even 80 percent of enterprises' net income are handed to the higher authorities. The lack of financial resources plus increased investment risks discourage enterprises from borrowing money, whether for profitable or unprofitable projects (or at most they are willing to get into some "short, level, and speedy" projects). In particular, enterprises are most unwilling, nor can they afford, to take on infrastructure projects and raw materials and other "bottleneck" industries or fill the void in the state's important technological transformation projects which, despite their social benefits, require substantial investments, have long payback periods, and generate no direct economic benefits. Reportedly, since 1988, when the pilot project to separate tax and profit began in Chongqing City, its energy, communications, and raw materials and other basic industries which have major technological transformation responsibilities and enterprises which generate good social and economic benefits have basically stopped borrowing money from the banks. Even enterprises which have done well with their investments and which used to borrow money actively are worried about not being able to repay their debts and about the effects on their retained profits and are taking a wait-and-see attitude. Obviously, this will have an adverse effect on enterprises' effort to develop and improve themselves and will slow enterprises' development and impede technological improvements.

In view of the fact that it takes time to build a self-restraining investment mechanism under the system of after-tax debt payment, and considering enterprises' current situation, in order to implement the separation of tax and profit successfully, we can consider the following transitional measures with respect to debt payments and giving aid to enterprise technological transformation:

One, with respect to enterprises' old debts, we can determine reasonable proportion of pre-tax and after-tax

debt payment for each unit according to the types of industries, different profit levels of different enterprises, technological transformation responsibilities, and the size of the "old debt" burdens. (For example, Chongqing has adopted a method of determining each enterprise's "old debt" base and then setting a 50-50 pre-tax and after-tax debt payment ratio, and it has opted to implement the after-tax debt payment system in steps. Moreover, its approach is fairly flexible: Some enterprises may repay 10 percent while others may repay as much as 90 percent of their debts with pre-tax profit.) Any remaining old debts not yet paid off will be shared by the Ministry of Finance, banks, and enterprises. Meanwhile, in order to solve the problems of enterprises' unwillingness to make technological improvements and their lack of production stamina, the state should assist enterprises with key technological transformation projects as designated by the industrial policy. First, it should set different interest rates and provide low-interest loans for key technological transformation projects, and banks too should reschedule the loan terms. Meanwhile, high interest rates should be imposed on enterprises to discourage the production of goods already in abundance or products which should be eliminated. Second, it should allow accelerated rate of depreciation. Enterprises should be able to accelerate the depreciation of key technological transformation projects. Finally, the state should adopt a financial discounting policy.

Two, with respect to new enterprise investment loans, we should adopt a biased policy that deals with each case on its own merits but which first classifies the projects and analyzes each enterprise's ability to repay its debt. First, "short, level, and speedy" projects which require little initial investment and generate quick return should be required to pay their debts with after-tax profit. Second, projects that require substantial investments, have fairly long payback periods, and generate good social benefits but little enterprise profit, projects which according to the state's industrial policy are projects which should be developed first or which are key projects in the energy, raw material, communications and other "bottleneck" industries which require special assistance, and the state's key technological transformation projects—loans to finance them may be repaid partly with pre-tax profit and partly with after-tax profit, or try discounting the new loans, and we can accelerate the depreciation of fixed assets created in these projects by the new loans. Moreover, we can lower the loan rate a little bit more. Finally, after-tax debt payment should be implemented in steps, that is, in view of the arduous task of making technological transformations and the fact that enterprises' real debt-paying ability is limited, enterprises so able (study shows that there are only a handful) should try their best to convert to after-tax debt payments in one step. Those which really cannot do so should adopt methods similar to those dealing with the old debts and make a step by step transition to the new system.

II. The Issue of High Enterprise Income Tax Rate

The key to separating tax and profit lies in determining the limits to enterprises' income tax rate. Once the income tax rate is set, the amount the state gets out of enterprises' realized profit in the form of tax revenue and the amount of enterprises' after-tax profit retention will be fixed. The determination of this tax rate must give expression to the basic economic attributes of income tax. Income tax paid by enterprises should be used primarily to pay for public consumption expenditures by the state when exercising its functions as social administrator and manager. On the other hand, profit delivered by enterprises should be used primarily on increasing asset value, that is, on investments. Meanwhile, we must consider the fairness of the tax burdens of enterprises under different ownership systems when determining the income tax rates.

In early 1989, the pilot program to "separate tax and profit" as handed down by the Ministry of Finance and the State Commission for Restructuring Economic System set a uniform 35 percent income tax rate for all profit-oriented state-run enterprises. As indicated by the experimental units, in practice, the tax rate is not entirely fair. It exceeds what enterprises can bear and is directly responsible for hampering the expansion of the pilot program.

(1) It is estimated that the income tax rate is 10-15 percent higher than enterprises' current real tax burden and is beyond what they can bear.

In piloting the separation of tax and profit, the experimental units generally are of the opinion that subjectively, they are against the separation of tax and profit; instead, they prefer the contract system. The reason is, besides the fact that the separation of tax and profit is more restrictive than the contract system and that enterprises must bear the risks of borrowing money and be responsible for paying their debts (the contract system is less stringent, and the contract base and other variables are negotiable), the separation of tax and profit also increases enterprises' tax burden. Although the separation of tax and profit lowers the enterprise income tax rate from the original 55 percent to 35 percent, it also changes pre-tax debt payment to after-debt payment, and enterprises in the pilot project turn out to have a heavier burden than those not participating in the experiment. Moreover, the current tax system is based on a two-step substitution of taxation for profit delivery and emphasizes primarily the circulation tax, which is a stiff tax. Much of enterprises' income is taken away by the state in the form of circulation tax. There is not much retained profit to speak of. Upon paying income tax and delivering their profit, enterprises must still pay into the energy and communications fund, subscribe to treasury bonds and key construction bonds, and pay for all sorts of appropriations and apportionments. In particular, beginning in 1989, enterprises must also pay into the budget regulation fund. Actual retained profit has grown

even smaller, usually no more than 15-25 percent. Compared to some other countries, Chinese enterprises' tax burden is very heavy. Especially in view of the fact that enterprises' economic efficiency is not that high and that the internal and external environments are not conducive to their survival and development, their ability to take part in the experiment to separate tax and profit is indeed limited. A relevant department estimates that, using the 1987 final accounting figures of 594 enterprises in six different industries (mechanical and electronic, metallurgical, chemical, energy, light, and textile industries) in nine provinces and cities (Beijing, Shanghai, Liaoning, Jilin, Guangdong, Xinjiang, Ningxia, Dalian, and Changzhou), if we apply the 35 percent income tax rate, only 294 units, or 49.7 percent, will find after-tax contracting feasible; that is, there is profit to be made after paying taxes, and that 225 units, or 39.7 percent, will have retained profit but will not be able to pay off their debts, and the remaining 73 units, or 12.3 percent, can neither pay their debts nor retain any profit and must rely on the government's tax refund and subsidies. In other words, nearly half of the enterprises have no profit to make by contracting. This will greatly dampen enterprises' enthusiasm in the experiment and hamper the expansion of the pilot project. Looking at Chongqing, which is conducting the most extensive experiment, of the 616 pilot enterprises, 463 units, or 75 percent, have some contractual profit after paying the 35 percent income tax; 78 units, or 13 percent, have zero profit; 75 units, or 12 percent, have negative profit, that is, after paying taxes, not only do they have no profit left and cannot make minimum debt payment, but they have to rely on tax refunds. In other words, 25 percent of the enterprises which have been specially selected to run the experiment have difficulty with after-tax contracting, and 12 percent cannot even make after-tax debt payment work. The ordinary enterprises, especially the low-profit and money-losing enterprises, will find it even more difficult.

(2) We have not made the tax burden fair.

The applicable tax rate does not distinguish among large-, medium-sized, and small enterprises. It is a flat rate. This may seem equitable, but in fact it fails to consider China's seriously distorted pricing system, its underdeveloped market, and the fact that different types of enterprises have different facilities, technological standards, and worker qualifications; that is, it fails to consider that differences among enterprises' internal and external production and operation environments have different effects on their profit and operational conditions and so on, and therefore the uniform tax rate does not comply with the principle of fairness and equity and is not conducive to fair competition among enterprises. Moreover, this tax rate ignores the fact that how much state-allocated funds an enterprise uses free of charge will have a significant effect on its profitability. To some large- and medium-sized enterprises and key enterprises which the state puts money in that they do not have to pay back, the uniform 35 percent income tax may be too

light a tax burden, but for ordinary enterprises and local enterprises that the state seldom invests in, the tax rate may be too high, and therefore there is inequity in the tax burden.

To make the pilot reform program of separating tax and profit more compatible with what enterprises can bear and thus make it possible to expand the pilot project successfully, while insisting on unifying the income tax system, it is necessary to lower the 35 percent tax rate to around 30 percent (make 30 percent the top bracket but start the rate at 5 percent) in order to solve the problem where some enterprises have no profit to make by contracting after paying income tax or have no money to repay their debts. Will lowering the tax rate adversely affect the increase in state revenues? Facts in localities piloting the system show that lowering the tax rate is a scheme of "giving before taking" or "filling the pond first in order to raise fish." It not only will not cause the state to lose revenue but will often increase its revenue even faster. For example, in 1988, as a result of Xiamen City's lowering the tax rate, income tax and profit delivered by 67 of its enterprises were reduced by 2.37 million yuan, but total tax revenues increased by 14.20 million yuan, or 10.4 percent. This is because an increase in production raised circulation tax revenues substantially.

III. The Issue of Energy and Communications Fund and Budget Regulation Fund Levies.

Should energy and communications fund and budget regulation fund be levied on the portion of profit (funds) enterprises use to repay their debts? This is one of the important questions which urgently needs to be studied and resolved. Under existing policy, the portion of enterprise income used to pay debts after paying taxes will have to bear the double burden of income tax plus payments into the energy and communications fund and budget regulation funds. The latter "two funds" are levied based on a percentage of enterprise retained profit and extra-budgetary funds. The more retained profit and extra-budgetary funds an enterprise has, the more they have to pay into those funds. In the reform to separate tax and profit, both the concept and the connotations of enterprise- retained profit have expanded, and quantitatively, there is more retained profit (but the incremental portion is mainly for keeping enterprises' after-tax debt payment mechanism intact, that is, the money is for paying debts after paying taxes,) which makes the base for calculating income tax and the two funds larger, and consequently, enterprises' tax burden is heavier, diminishing their ability to repay their debts and to make improvements. Whether we are comparing this with enterprises' earlier attempts to separate tax and profit on their own or to the situation prior to the reform to separate tax and profit, it is still neither fair nor reasonable. What this means is, if enterprises' extra retained profit can be taken away by the energy and communications fund and so on, enterprises will once again lose their ability to repay debts and make improvements on their own, then "separation of tax and profit" will have

no meaning. Looking at the experimental units' situations, if the "two funds" are levied on funds earmarked for after-tax debt payments, we are in fact raising the real tax burden of enterprise profit from 35 percent to 51.25 percent, and any real benefit given to enterprises by lowering the income tax rate (from 55 percent to 35 percent) is completely offset, and enterprises' ability to repay debts is greatly diminished. In 1989 alone, it is estimated that as a direct result of Chongqing City's newly imposed 10 percent payment into the budget regulation fund, enterprises which were part of the pilot project found their ability to repay debts reduced by 13 percent. Obviously, this problem has become a major obstacle to the promotion of the separation of tax and profit.

Considering enterprises' actual ability to repay their debts today, and to facilitate the smooth implementation of separation of tax and profit, perhaps it is better not to levy the two funds on money enterprises earmark for after-tax debt payment. The reason is, when the two funds were first levied, to a very large extent, it was due to the profit allocation distortion between the state and enterprises, which gave us no choice but to squeeze more revenue out of enterprises' retained profit and extra-budgetary funds. After the separation of tax and profit, the relationship between the state and enterprises will be straightened out, and it will no longer be necessary to extract any more revenue out of the profit earmarked for debt payments. Profit earmarked for after-tax debt payment is profit net of income tax but before the delivery of contractual profit. It is not retained profit, nor can it be considered extra-budgetary fund, and therefore the "two funds" should not be taken out of that money. Moreover, the "two funds" were not levied when enterprises paid their debts with pre-tax profit, and if they are now exempt from after-tax debt payments, it will not be setting any precedence. Taking a step backwards, if the two funds must be levied, we must comply with one principle: We must guarantee the portion the state is entitled to collect, but at the same time, we cannot short-change the localities and enterprises that are implementing the separation of tax and profit. We can consider two different ways of levying the funds: First, after paying income tax, enterprises should first pay off any special loan, and then the two funds can be levied based on their profit net of the debt payment. Second, we can use what the localities paid into each of the funds a year before the separation of tax and profit as base to determine their respective fixed contract quota or incremental contract quota to be delivered each year. Either one of these methods will avoid the dual burden problem as we change enterprises pre-tax debt payment into after-tax debt payment.

IV. The Issue of Who Has Property Rights After the Identity of the Principal Investors Changes

After the separation of tax and profit, we are faced a property rights question as the identity of the principal investors changes, that is, who has property rights in the fixed assets which enterprises create or add through

technological transformation using borrowed funds or their own funds after they begin paying debts with after-tax profit? If this issue is not resolved properly, it will have a serious impact on the investment enthusiasm of enterprises implementing "separation of tax and profit" and will encourage short-sighted behaviors which will lower their stamina for further development. Statistics show that from 1983 to 1986, nationwide, more than 20 billion yuan in pre-tax profit have been used to pay debts, directly reducing the state's income, and the state should have ownership rights in the assets. With after-tax debt payment, most or all of the property rights in the fixed assets created or added by old loans should go to the state. Although some of these loans are repaid by after-tax profits, the government is contributing a pre-tax share, and since the state has ownership rights in those funds, the property rights in assets created with these loans should also go to the state. After all the old debts are paid off, enterprises should remove their debt payment fund base and add the corresponding amount to the contracted profit delivery base, and then the property rights in the fixed assets created or added by using borrowed money which they must repay with after-tax funds or using their own funds to finance technological transformation would go to enterprises themselves. From now on, that portion of enterprise asset will be able to participate in the profit allocation between the state and enterprises. In this way, we can greatly mobilize enterprises' investment enthusiasm and gradually make their investment behavior more rational, maintaining their development stamina.

Assessment of Vigorous Shenzhen Stock Market

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[Article by special reporter Chen Hsueh-chung (7115 1331 0022): "Hot Topic in Mainland Economic Reform: A Survey of the Shenzhen Stock Market"]

[Text] Recently, Shenzhen's stock market has seen some sharp rises and sharp falls and has attracted much attention. Shenzhen's stock market is an important indicator of Mainland China's economic reform. In the four years since its inception, it has become one of the focal points and a barometer of the internal struggle among different factions within the CPC. This writer recently conducted a special, on-the-spot study of this hot topic.

At First, It Was Like Selling Treasury Bonds

The enterprise shareholding system is a key measure vigorously promoted by the reformist faction. After surmounting many obstacles, the nation's first stock market finally opened in 1987, and the nation's first stock, "Development Bank Stock," was issued in Shenzhen. Each share had a face value of 20 yuan RMB. It was a kind of reform experiment. At first, the stock did not attract much attention, or we should say, it did not sell at all. Consequently, the city government mobilized leading cadres at all levels to take the lead in subscribing to shares as a concrete show of support for the enterprise shareholding system. It was not unlike the drive to mobilize the public to buy treasury bonds. Cadres at all levels were told that stocks were a type of commodity; they could be bought and sold, transferred or given as gifts, but they had one advantage not shared by other commodities, that is, they paid dividends and could appreciate in value. As a result, **within six months of the issuance of the Development Bank Stock, 49 percent were subscribed by cadres at all levels, and the remaining 51 percent were bought by the general public.**

In 1989, the Shenzhen city government took further steps to promote and develop the stock market, and timing its move to the reform of the enterprise ownership system which aimed to turn the system of eating out of the big pot into a private system, it approved the issuance of enterprise stocks by Venke, Jintian, and Anda. Thus, instead of one, four companies have gone public with their stocks. The stocks have a total face value of 200 million yuan RMB. Meanwhile, the city government also approved two trust and investment companies to operate the securities exchange business. It also put in a tentative effort to improve management, such as enacting the "Regulations in Principle On the Issuance of Stocks in the Shenzhen SEZ [Special Economic Zone]," "Shenzhen SEZ's Securities Fee Standards," and "Regulations On the Management of Different Types of Securities in the Shenzhen SEZ". In March of this year, with the issuance of "Yuanye" stock, it raised the curtain to a very volatile Shenzhen stock market.

The Magnitude of Increase in Shenzhen's Stock Prices Sets World Record

The table below tells the whole story:

Shenzhen Stock Price Trend					
Stock	Development Bank	Venke	Jintian	Anda	Yuanye
Face Value (yuan/share)	1.00/share	1.00	10.00	1.00	10.00
List Price at Closing (1 Dec 90)	76.80	20.96	214.00	25.78	175.85
Peak Black Market Price	150.00	40.00	280.00	36.00	28.00

The figures show that the net market value of Development Bank stock has gone up 76 times, but if we add the splits (from 20 yuan a share to 1 yuan a share), the additional shares, the dividend shares and so on, its value has gone up by much more and is closer to the black market value of 150-fold increase. According to Shenzhen city government statistics, 200 million yuan's worth, in face value, of stocks have been issued. Their market value now exceeds 4 billion yuan, averaging an increase of more than 20 times, smashing the world record.

Three Main Reasons for the Skyrocketing Stock Prices

What made Shenzhen's stock market go wild? I interviewed a friend who is a cadre in the Shenzhen city government. He said, **"From the very beginning, I was convinced that CPC stocks would never lose value."** "Why?" "Because they are the CPC's. They will not let the price go down." "But people go broke overseas everyday playing the stock market." This official laughed and said, "But this is a socialist country. The CPC owns the enterprises, especially the banks. The CPC's own bank issues the stocks, what have you got to lose?"

The average citizens probably think the same way. They know little about stocks. They only know that if they bought them, their money would double in 10 days. Thus they swamp to the market. In May and June of this year, Development Bank shares rose 10 percent a day, which did much to boost the citizens' confidence in their speculation. This friend told me that there are a couple other less known causes to the raging stock market:

First, the government is worried about a popular uprising. Today, officials in all levels of the CPC government know that there is a lot of dissatisfaction among the civilians who are looking for ways to vent their grievances. For their own peace and security, local governments have taken a pacifying and conciliatory or even laissez-faire attitude. They know very well what a drop in stock prices could mean to their administration and therefore they are taking deliberate measures to keep stock prices up, and they can also take the strong market as proof of the reform's success.

Second, there has been a huge influx of out-of-town funds. It was not very long ago that Shenzhen and Shanghai were the only two cities permitted to get into the securities exchange business. Shanghai is under tighter control and therefore its economy is by far not as lively as Shenzhen's. The interior provinces' funds have long had their eyes on this precious piece of land called Shenzhen. Shenzhen owes much of its transformation from a small, dilapidated county town to today's scope within 10 short years to the funds poured in from the interior provinces and from Hong Kong.

Three types of funds have made their way from the other provinces to Shenzhen's stock market. **The first type is public fund.** The interior provinces have many enterprises and companies, and they are not without money,

but their money has nowhere to go. Eagerness for quick success and instant profit has cast a spell on the investors. As soon as they hear that Shenzhen's stock market is going strong, they send people with loads of cash to speculate in Shenzhen. **The second type is private fund.** Shenzhen's citizens have made money from the stock market and are now borrowing money from, or joining forces with, friends and relatives in the interior provinces to speculate in the market. Data show that more than half of the funds put in the market by local investors come from other provinces. **The third type is illicit money.** Many people use the Shenzhen stock market to launder illegally obtained money. Once around the stock market, and the illegal funds become legal income earned in the stock market. This kind of money-laundering facility is hard to come by in Mainland China, and therefore illicit money plays a very important role in Shenzhen's stock market.

The third little-known cause of Shenzhen's soaring stock market is that **companies that sell stocks are bribing government officials with shares.** Gift-giving is customary in the mainland. Companies that issue stocks take advantage of their unique position and use stocks as their stepping stone to success. In-kind gifts are tacky, and cash-payment is a no-no, but stock is a relatively new game in town. It is something of value but is not cash, which is a convenience for both sides. Therefore stock-giving has become a popular form of gift-giving. It was the trendiest thing in Shenzhen last year. If a certain unit is given a few shares, things often get done much faster. Most officials accept stocks, although they own limited shares. Companies issuing stocks give out shares as a way to thank the SEZ officials who took a chance in promoting the enterprise shareholding system during reform and who made a contribution. In return, and in their own interest, the officials pay a lot of attention to the stock market which is under a bureaucratic, planned economic system.

Beijing's Intervention: Stock Market Rectification

Since the inception of the Shenzhen stock market, members of the conservative faction in Beijing have been keeping a close watch. Finally, last month, a document was handed down to rectify the Shenzhen market. The major instructions include the following: a) Control the increase in stock prices, limiting the price increase to no more than five-thousandth of a point each day; price decrease is also limited to five-thousandth of a point on one day. b) Abolish over-the-counter exchanges and prohibit black market transactions. c) Party and government cadres are prohibited from taking part in stock transactions. d) Application for new stock issuance must be scrutinized.

In full compliance with Beijing's instructions, **Shenzhen's city party committee and city government have issued a joint document prohibiting Shenzhen's party and government department cadres from buying stocks.** A friend told me that the document was intended for Beijing's eyes. The writing was vague, principled. But cadres at which level are barred from buying stocks?

What if they did? How will this rule be enforced and supervised? Will the stocks be registers? What should be done to the shares they already own? Are their relatives allowed to buy stocks? There are no explicit regulations. The document was not even sealed. Probably, Shenzhen's leaders know very well that this kind of restriction will not work.

When the news came out, Shenzhen's stock market was nevertheless shaken. Black market prices plummeted. Development Bank stock fell from 150 yuan to just over 90 yuan a share. Many people lost tens of thousands overnight. Many more were upset by what the official businessmen in the stock companies had done to them. I saw the following graffiti on the wall of one stock exchange:

"People who want to sell can't sell; people who want to buy can't buy. Corrupt companies. Who can trust them?"

Playing the Market Cost Two Lives

Two murder cases involving stocks became the fuse that led to the CPC's rectification of the Shenzhen stock market. Shenzhen's citizens have become so wrapped up in the stock market that many public security cadres and policemen, military police, and soldiers would put on their street clothes and join the black market crowd.

In April of this year, in a major transaction worth a large sum of money, the stock peddler lured his client to a remote place, intending to kill him for the money. It turned out that the person carrying the money was a cadre in the public security bureau who took precautions and carried a gun. He shot and killed the would-be-murderer. In another case, two partners from the same unit were speculating in the stock market. One was the section chief, and the other was a security guard. When the stakes got bigger and bigger, the two got into a fight, and the security guard killed the section chief and vanished. For a while, things got fairly tense in the border towns. Besides murders, there have been many economic crimes. To raise money to buy stock, Shenzhen's citizens have been borrowing money recklessly. Some borrow from loan sharks, some embezzle public funds. The soaring number of economic crimes is directly attributable to the overheated stock market.

The Looming Shakeup and Li Hao's Donation

The men behind the rectification of the Shenzhen stock market are Wang Zhen [3769 7201] and Li Peng. The spearhead is pointing directly at Li Hao [2621 3493], secretary of the city party committee. My friend at the city party committee said that recently, a number of people have come down from Beijing, and they have been spending their days learning about what is going on and holding meetings. People surmise that there will be a shakeup. There have been all kinds of rumors around town, most having to do with the stock market. A well-known Hong Kong newspaper has also reported a piece of incredible news which coincides with those

rumors in Shenzhen: reportedly, on 9 October, Li Hao donated 1.5 million RMB, money he had made in the stock market, to the Shenzhen Youths' and Children's Fund.

I made a special visit to several friends on the inside to learn more about this story, and they all said it was not so. Li Hao is not a high-ranking official. His salary plus subsidies are at most 500 to 600 yuan a month. To him and his whole family, 1.5 million yuan would be a huge sum of money. If it was legal income, why would he casually donate the money? If he did, he would be a walking Lei Fung among the CPC cadres, and much would have been written about him. Why haven't the party newspaper said anything? If it was illegal income, the sum of money would have made his case a major economic crime. He would have been shot by now.

Furthermore, it is not a good thing to be known as a rich man within the CPC. Party members go to great lengths to conceal their wealth. Take Development Bank stocks which have appreciated the most in value (more than 70 times) for example. It would take an original investment of at least 20,000 yuan to make 1.5 million yuan. Li Hao was transferred from Beijing only three or four years ago and could not have had this kind of money. As we said earlier, even if he had the money, he would not have made a spectacle of it. There are too many stories about how big contributions attract suspicion and jealousy. They all come down to one thing: People violate a taboo by displaying their wealth. To be fair, among the many high-ranking officials in Shenzhen, Li Hao can be considered upright and uncorrupt.

Wang Zhen Forced Li Hao To Donate His Money

As for the story about Li Hao's donation, my friends have two stories of their own to tell:

One story says that Li Hao did have a few shares of stock, and upon learning that they had appreciated in value, he sold them at list price, recovered the principal, and donated the profit to a certain charity. The donation was under 20,000 yuan. Another story has it that **once Wang Zhen told Li Hao**, "I have been a revolutionary all my life. I have saved up 10,000 yuan and have given the entire sum to the party as membership due. You made money in the stock market. You should pay your membership due too." But Li Hao replied, "I made my money legally. I would not give it up even if it meant my job as city party committee secretary."

Li Hao has been in the Shenzhen city government for several years. Although not a spectacular success, he has been a steady and honest man and is well-liked. But in recent years, there have been repeated rumors that he may be on shaky ground. The new mayor, Zheng Liangyu [6774 5328 3768], is a fellow townsman of Jiang Zemin; both are from the Jiangsu-Zhejiang area. He used to be city party committee secretary in Yangzhou and is a Jiang Zemin confidant. After he took office, one by one, he brought in several of Jiang Zemin's men to Shenzhen,

and one after another, Li Hao and the old guards are retreating to the second line.

The Shenzhen Stock Market Still Has Potential

I personally think that after the rectification, more restrictions will be put on the Shenzhen stock market, but the market still has a lot of potential. In the past, the stock market was slow. Only 1 to 2 million shares changed hands a day. Today, although black market prices are down, market quotations are up, and each day, the transactions are worth 40-50 million yuan. Reportedly, the government is prepared to impose a personal income tax on stock transactions, and the rate may be as high as 20 percent, which will be one way to keep the stock market from overheating.

So far, six or seven companies have been approved by the city government to issue stocks next year. City-wide, there are 12 securities exchanges, and a few more are planned for next year. Jiang Zemin's visit to Shenzhen to celebrate the SEZ's 10th anniversary no doubt benefited the stock market. Deng Xiaoping had planned to take part in the ceremonies and had sent a verbal message saying, "barring the flu, so long as I am healthy, I will come." Although at the end, he did not show up, the importance the CPC high officials attach to the Shenzhen SEZ fully reflects the Shenzhen stock market's potential and prospects.

Insider news also revealed that next year, Shenzhen intends to issue bonds for its airport construction. They pay 14 percent interest annually and may be listed and traded openly. This will inject new life into Shenzhen's securities market.

Measures Proposed To Resolve Financial Difficulties

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[Article by Zhang Jun (4545 0971) of the Economic Research Institute under the Jiangsu Provincial Academy of Social Sciences, edited by Zhang Le (1728 2867): "On China's Present Financial Difficulties"]

[Text] China saw successive years of deficits in its financial revenue, which was the basic situation after 1979. The value of its SR/NI (the proportion of its financial revenue to national income) ratio has been decreasing. Faced with this phenomenon, some people blamed the expanded fiscal policy which "decentralized authority." For this reason, when tackling the issue of overcoming the present financial difficulties, they often tended to strengthen centralization of fiscal affairs again. Nevertheless, according to China's past experience, there were occasions indicating that, in order to solve problems by strengthening the centralization of financial supervision by the central authorities following the economic chaos caused by decentralization and reform, an important precondition was to limit such decentralization and reform to the redistribution of authority and

interests between the central and local authorities and avoid involving expanding enterprises' authority, as well as their use of funds in the form of centralized revenue and expenditures. Decentralization and reform never weakened the power of financial departments in terms of centralization of financial strength in society. Rather, they strengthened the power as they mobilized local enthusiasm. For example, when we carried out decentralization and reform on a large scale between 1957 and 1960, and between 1969 and 1971, there was a sharp rise in the SR/NI values. SR values for these periods were as high as 34.16 percent, 34.66 percent, 39.92 percent, and 46.91 percent respectively; NI values were as high as 32.57 percent, 34.42 percent, 35.85 percent, and 35.89 percent respectively. These were two peak periods on China's SR/NI curve.

Our work in decentralization and reform in the past decade, however, is no longer simply limited to the redistribution of authority and interests between central and local authorities. Rather, more emphasis was placed on expanding enterprises' autonomous right to produce and operate. Enterprises' pattern of fund use in the form of centralized revenues and expenditures was basically broken, and was replaced by the system of assuming sole responsibility for one's losses and profits. Therefore, unlike the situation before decentralization and reform, the SR/NI value declined. At present, the value has dropped by about 20 percent, indicating that the right to use financial strength in society is becoming decentralized. To a large extent, this makes our experience regarding traditional economic management outdated. It becomes doubtful whether, under the new economic situation, it is still effective to solve the present economic problems and financial difficulties by applying the traditional method of strengthening centralization of financial strength in society. In addition, our past experience reminds us that reducing economic management power and tightening fiscal policy will often bring about an economic depression. And this has once again been proved.

Therefore, under the present circumstances where we face problems of stabilizing prices, maintaining an appropriate economic growth rate, making job arrangements for the population, and further intensifying reform, we must carefully consider whether we should solve the economic problems and financial difficulties by strengthening centralization of financial strength. With such a purpose in mind, I will make a general analysis on the form of and reasons for China's financial difficulties at the present stage.

I. China's Present Form of Financial Difficulties

It is very easy to simply put the blame of formation of China's present financial difficulties on mistakes made in the guiding ideology, on neglect of the overall balance, on the weakened financial functions, and so on. However, such conclusions cannot help solve the problems. In fact, in almost all of the last few years government work reports stressed the work of maintaining a balance

in financial affairs. Nevertheless, there were deficits of several dozen billion yuan in each of the annual budgets. This indicated that the formation and development of China's financial difficulties were independent from our subjective will and were determined by objective economic conditions. The past decade was a decade of reform, as well as a decade marked by reform. In order to really understand the causes for the formation of financial difficulties during this period, we should examine them from the viewpoint of economic reform and development and from the viewpoint that China's economic management system is in the process of switching from a traditional product economy onto a planned commodity economy.

1. Enterprise profit-sharing systems. The most significant feature of China's traditional economic management system, be it centralized or decentralized, is excessively rigid state control of enterprises, so that enterprises lacked their proper autonomous right to operate. Therefore, in reform, we must break away from the limitations brought by the traditional distribution of authority between central and local authorities, and make the work of "changing enterprises from being attachments of administrative organs into relatively independent commodity producers that will have their autonomous right to operate expanded under the state's centralized leadership" as a significant goal. For this reason, it becomes very necessary that we should change the manner in which funds are distributed among state-run enterprises, that is, "centralized revenue and expenditure," and allow enterprises to become independent subjects of interests. Facts have shown that our reform of the profit-sharing system among enterprises in 1979 changed enterprises' behavior and strengthened their sense of marketing and their understanding about profit-making. This basically turned enterprises into commodity producers and operators, which were relatively independent subjects of interests. It also fundamentally put an end to the situation in which, under the traditional economic system, the funds for reproduction in enterprises came from the fiscal departments. We have located sources of funds for reproduction in enterprises, which are mainly their own funds and funds available from banks on credit terms. Furthermore, the continuous reform of enterprise profit-sharing system became the breakthrough point for starting a full-scale reform of the economic management system in 1978. It shook the traditional planned management systems in terms of fiscal affairs, financial affairs, materials, and labor wages; promoted the formation and development of markets for means of production, labor, and capital; and laid a foundation for a flexible combination of socialist economic operation plans and market readjustment.

On the other hand, reform of the enterprise profit-sharing system brought about changes in the traditional pattern of enterprise profit-sharing. According to statistics, the proportion of realized profits and taxes delivered to the state by state-run enterprises to financial revenues dropped from 87.3 percent in 1979 to 15.9

percent in 1988. Obviously, reform of the profit-sharing system has broken the traditional basis of maintaining a balance in financial revenues and expenditures, and is the main cause for the present financial difficulties.

2. Reform of the depreciation funds management system. Starting in 1980, the state's fiscal departments gradually discarded the practice of centralizing control of depreciation funds. By 1987, depreciation funds were entirely held by enterprises for management and used as a special fund. Such reform made the SR/NI value drop by about 5 percent, thereby bringing about adverse effects on the traditional practice of maintaining a balance in financial revenues and expenditures. Nevertheless, this promptly ended the aging of China's fixed assets and equipment in the early 1980's, and played a positive role in improving their product quality and economic results, and in promoting technological transformation. At the same time, by giving enterprises back the right to dispose of depreciation funds, it was the first confirmation of their status as economic entities that were independent legal persons.

3. Financial subsidies. Between 1985 and 1988, the accumulated amount of financial price subsidies and losses incurred by enterprises totaled 235.2 billion yuan, or 2.72 times the financial deficit (including government debts), which totaled 86.576 billion yuan. It is a widely-known reason for having the financial difficulties.

However, the cause for the large-scale financial subsidies was the reform of the pricing system. A characteristic of the pricing system in China's traditional product economy was that enterprises did not have the right to determine their products' prices. The parity price of all products was subject to rigid control by the central authorities, and no local government was given any right to readjust it. After 30-odd years of changes, this system deviated more and more from the law of value, and failed to tally with the requirements for scientific and technological development, as well as with market changes. In the wake of reform of the economic system and the development of a commodity economy, the need to change the irrational pricing system has become more urgent.

Nonetheless, a particular pricing system is a manifestation of the relationship in terms of distribution of interests in a certain period. In order to change China's irrational traditional pricing system, it was inevitable that the distribution of interests had to be rearranged. According to the assumption on rigidity of interests, this would inevitable push up the general price level, and it would be very difficult to readjust the pricing system without changing the general price level. When allowing general price levels to increase, we had to consider if society would accept it. It was no by means acceptable by China's economy to promptly change the irrational pricing system, which was formed some 30 years ago. This thus became a contradiction between reform and acceptance by society. Therefore, in order to promote price reform, financial departments were forced to boost

the acceptance of price reform by society and win public support by giving subsidies to various social sectors. For example, between 1979 and 1984, when the focus of price reform was on "readjustment," the price difference between purchases and sales of agricultural products, and subsidies for making up for losses, cost the state's financial departments a total of as much as 133.75 billion yuan. After the focus of price reform switched to "combining readjustment with opening up, with the latter being the major part" in 1984, the amount of state subsidies for making up for losses incurred by enterprises increased sharply, from 5-7 billion yuan annually to 30-40 billion yuan annually, and reached 60 billion yuan in 1989. Between 1985 and 1989, the amount of subsidies for making up for losses incurred by enterprises totalled 186.478 billion yuan. Thus, we can see that the formation of China's financial difficulties is closely related to our reform of the pricing system.

4. The effects of tax reduction and exemption, and repayment of loans before taxation. Following the Third Plenary Session of the 11th CPC Central Committee, the state's financial departments have—as a way to support the state's employment policy, industrial policy, policies on technological progress and transformation, opening up policy, rural economic development policy, and so on—adopted large-scale measures for tax reduction and exemption, and for repayment of loans before taxation. This has, on the one hand, promoted reform of China's economic system and economic development. For example, between 1981 and 1988, 80 percent of the newly increased profits of enterprises were derived from the newly increased production capacity and from the readjustment of the product structure. However, 70 percent of their funds for increasing their production capacity and for readjusting the product structure came from repayment of loans before taxation. On the other hand, the scale of tax reduction and exemption is increasing. Between 1979 and 1988, the scale of repayment of loans by state-run enterprises before taxation grew at an annual rate of 36.1 percent. Between 1979 and 1986, the cumulative total of reduction of taxes on industrial enterprises approved by the central authorities equalled 900 billion yuan. Undoubtedly, this restricted the growth in financial revenue, and encouraged the formation of China's financial difficulties.

II. Two Reasons Why Improvement of China's Financial Difficulties is Undermined

China's SR/NI value continued to decline after 1979. From the viewpoint of changing China's economic management system, such a decline was necessary and inevitable. However, China's present SR/NI value was only about 20 percent. This was much lower than that of East European countries (the SR/NI value of these countries had long been maintained around 70 percent or more) before 1989 when they were practicing a highly-centralized planned economic system. The level was also much lower than that of capitalist industrialized countries in the West (the SR/NI value of these countries was generally around 30-40 percent), which adopted the

market economy as their major form. Therefore, finding the cause of the low SR/NI value in China was in fact the key to solving China's financial difficulties.

With regard to finding a solution for China's present financial difficulties, there is a subjective conclusion that we should improve the SR/NI value. Even simple arithmetic fully supports this conclusion. If China's SR/NI value were the same as that of capitalist industrialized countries of the West, China's financial revenue would have increased by 228.96 billion yuan between 1981 and 1988, or 1.7 times its financial deficits (including debts) during the period. What a marvelous assumption it is! In practice, however, it is doubtful whether we can realize the calculated growth in our financial revenue by improving the SR/NI value. According to the Laffer curve, when the extent of centralization of enterprises' revenue by financial departments exceeds a certain level, the motivation and action of enterprises to increase their revenue is hampered. As a result, the gross revenue of financial departments drops. For those people who try to solve the financial difficulties by deliberately boosting the SR/NI value through simple ways, this is undoubtedly a problem worth considering.

We hold that the decentralization of authority in the wake of reform was just a superficial reason for having a low SR/NI value. The profound reason that China's SR/NI value stayed at a low level was that the level of our national economy was generally low, which was also another crucial reason for China's financial difficulties. This was manifested mainly in the following aspects.

1. The inclined development in China's economic structure was the main reason for checking the SR/NI value. A general tendency of modern economic development indicates that in the process of industrialization, it is inevitable that agriculture's share in the national economy gradually drops. This is mainly shown by a drop in the ratio of agricultural output value to GNP, and in the proportion of agricultural laborers to society's laborers. Under the conditions of market economy, changes in the composition of the GNP value correspond to, and are inseparable from changes in the composition of the labor force and working population. Because of the law of average rates, various trades generally maintain the same rate in the distribution of national income (income of employed laborers, income of capital owners, and revenue of the government) in this process. Thus, any increase in the government revenue does not put extra pressure or burden on any particular trade, and the pressure for increasing government revenues is shared equally by all trades. However, China's industrial development took another form. Through a large-scale accumulation of capital, the state rapidly increased the share of the machine-processing industry in the national income, so that the proportion of the gross value of industrial output to the gross value of social output increased from 34.4 percent in 1952 to 61.1 percent in 1988. On the other hand, the state checked through various channels the changes in the agricultural working population, so that the composition of labor forces and

working population did not agree in many aspects with the industrial structure of the national economy. This brought about a skewed distribution of national income among industries. As agriculture employed most of the working population in society, most of the national income earned by the agricultural sector was turned into consumption funds, and became income of agricultural laborers. For example, the proportion of individual income to net income (excluding income earned by village enterprises) earned by China's rural areas in 1988 was as high as 92.61 percent, while the percentage for the state only accounted for 3.05 percent. It was inevitable that this tendency put an extra burden on the financial revenues of other sectors that greatly exceeded their position in the state revenue structure. If we calculate according to the average structure of financial revenues between 1978 and 1986, then raising the current SR/NI value by 1 percent would require increasing the SR/NI value of agriculture by only 0.12 percent, the SR/NI value of commerce by only 0.4 percent, that of the building industry by only 1 percent, and increasing those of the industrial and transportation sectors by 1.6 and 1.8 percent respectively. Therefore, it was obvious that the move to raise the SR/NI value was inevitably hindered by the extent of its acceptability to the industrial and transportation sectors. While the present SR/NI values of China's industrial and transportation sectors are as high as 35.4 percent and 38.1 percent, it is very difficult for these sectors to raise such values further. Thus, if China's industrial structure, particularly its financial revenue structure, remains unchanged, it will be impossible for us to raise China's SR/NI value.

2. Ineffective and rapid economic development was another important reason for having a low SR/NI value in China. Financial revenue directly comes from the national income, so that its growth is inevitably determined by the growth of the national income. A regression analysis of China's data with respect to its financial revenue and national income between 1950 and 1985 indicated that the growth of financial revenue was in proportion to that of the national income. However, the scale of centralization of the national income by the state's financial departments was determined by the mode of development of the national economy. Although China's national income saw a rapid growth following the founding of the state, the growth was basically ineffective, and maintained by high inputs and stimulations. According to the "Study on China's Macroeconomics" sponsored by Comrade Zhang Fengbo, China's economic growth was characterized by the following: First, economic growth depended on extensive development, that is, increased inputs. Second, it depended on the effectiveness of increasing the gross consumption of factors of production; the efficiency derived from an increase of input of capital was much higher than that derived from increases in labor inputs. Third, of the economic growth achieved by basic factors of production, the usefulness of improved resource distribution with respect to economic growth was rather poor.¹ As a result of such inefficient and rapid growth,

the ratio of newly increased national income subject to centralization by the state's financial departments was rather limited (see the following table).

**Financial Revenue of Newly Increased National Income
Between 1979 and 1988**

	Absolute Amount (billion yuan)	Ratio (percent)	Annual Growth Rate (percent)
Growth of National Income	631.1	100	13.4
Revenue Available for Distribution	281.8	44.7	10.9
Actual Revenue Received	111.5	17.7	8.2

Between 1979 and 1988, the amount of revenue in the newly increased national income available for distribution by financial departments was only 44.7 percent. Therefore, it is no wonder that China's present SR/NI value is not only far below the level of those countries with highly centralized planned economy, and lower than that of those countries which have adopted the market economy. This is because most of the revenue has been distributed to laborers in the form of bonuses. In 1987 and 1988, the proportion of individual income to newly increased national income was 45.5 and 47.9 percent respectively.

III. Several Conclusions

1. Following the implementation of reform, changes in China's SR/NI value were essentially different from past changes. Previously, changes in the SR/NI value were mainly due to readjustment of the distribution of authority between central and local authorities. However, recent changes in the SR/NI value were caused by changes in the system of capital supply at the microeconomic level.

2. Generally speaking, the drop in China's SR/NI value after 1980 matched the pace of reform of and expansion of authority of economic units at microeconomic level. Therefore, in a certain sense, the drop in SR/NI value was an inevitable result of developing a planned commodity economy. In a situation where other conditions remain unchanged, if we overcome the financial difficulties by simply emphasizing raising the SR/NI value, it is possible we will return to the former system of capital supply, in which revenues and expenditures were centralized, which contradicts the direction of reform.

3. Regarding the two reasons for the restricted growth of China's financial revenues, the basic way to overcome the financial difficulties is to readjust the economic structure, particularly the financial revenue structure, and the mode of achieving socialist economic growth. Nevertheless, readjusting the economic structure, as well as changing the mode of economic growth, is a lengthy process and cannot be done overnight. In the meantime,

the prospects for overcoming financial difficulties by raising the SR/N1 value can hardly appear optimistic without restoring the traditional system of centralization to a certain extent. I therefore maintain that when overcoming financial difficulties in the coming years, we should focus on financial expenditures, and should readjust the structure and scale of such expenditures.

Footnote

1. See *China's Macroeconomic Structure and Policies*, edited by Zhang Fengbo, published by China Finance and Economics Printing House, 1988 edition, pp. 53-56.

Finance Company Rectification Completed

HK2502140891 Hong Kong ZHONGGUO TONGXUN
SHE in English 0848 GMT 25 Feb 90

["China Abolishes and Merges Two-Thirds of Its Financial Companies"—ZHONGGUO TONGXUN SHE headline]

[Text] Beijing, February 25 (HKCNA)—After two years of economic rectification and improvement, two-thirds of China's financial companies have either been closed or merged, according to a recently held meeting of managers of all the country's trust and investment companies.

According to the Deputy Executive Governor of the People's Bank of China, Guo Zhenqian, vigilance against the reappearance of "over-enthusiasm for trust and investment" will still be needed for a considerable time into the future. The People's Bank of China, except in cases of special necessity, will as a general rule, not approve the setting up of any new financial company.

Mr Guo pointed out that trust and investment companies are important complements to the credit sector of banking. At present, management of the nationwide trust business by the central bank should be strengthened, he said, in order to bring it gradually into the legal administration system.

More Foreign Banks Plan Offices in Shanghai

OW0303072991 Beijing XINHUA in English
0647 GMT 3 Mar 91

[Text] Beijing, March 3 (XINHUA)—Shanghai, China's largest city, is expected to see the setting up of four or five branches of overseas banks as well as a joint venture bank in the first half of this year, according to Gong Haocheng, president of the People's Bank of China Shanghai Branch.

Gong said Shanghai will further open its financial services industry to the outside world.

Necessary procedures for setting up the branches were underway and further details would be announced soon, Gong said, adding that the banks would include those from Japan, North America and Europe.

Gong revealed that the joint venture bank would involve the Agricultural Bank of China Shanghai Branch, which was already looking for partners.

According to Ruo Shilin, vice president of the Shanghai Branch of the People's Bank of China, the setting up of a joint venture insurance company was being planned.

Currently, Ruo said, there were only two insurance companies in the city.

Ruo said other provincial and city banks were also considering opening new branches in an attempt to support development of the Pudong new area of Shanghai.

The opening of these regional branches in Pudong would help to draw domestic funds to Shanghai, Ruo said. Some 25 percent of the transaction volume of the Shanghai Securities Exchange came from other provinces.

The setting up of new foreign and domestic bank branches would increase competition in the city's financial industry, Ruo said, adding that regulations were now being planned.

Record Urban Savings Deposits in Industrial Bank

OW0104093991 Beijing XINHUA in English
0849 GMT 1 Apr 91

[Text] Beijing, April 1 (XINHUA)—The ECONOMIC DAILY reported today that by the end of February urban savings deposits in the Industrial and Commercial Bank of China reached 309.9 billion yuan.

Zhang Xiao, bank governor, said that 1990 urban savings deposits were 64.3 billion yuan more than in 1989, and set a record high.

Zhang said that last year the bank granted loans totaling 110.7 billion yuan more than in 1989. Industrial loans amounted to 76.5 billion yuan, while commercial loans totalled 23 billion yuan, and technological renovation loans exceeded 9.4 billion yuan, said Zhang.

The governor said that increasing bank savings deposits provide a solid foundation from which the bank can extend loans. He added that a shortage of construction funds has long been a problem and will continue to be a problem in the future.

Zhang pointed out that to support production and promote development of the national economy the bank faces a difficult task in collecting funds from various channels, and in absorbing surplus funds from citizens.

Loan Plans Revealed for Technical Renovation

HK2503041791 Beijing CHINA DAILY in English
25 Mar 91 p 2

[By staff reporter Xie Liangjun]

[Text] China's largest commercial bank yesterday unfolded its blueprint designed to provide loans for the country's technical renovation programs in the Eighth Five-Year Plan period (1991-95).

During that period, the Industrial and Commercial Bank of China will provide China's technical renovation projects with loans totalling from 100 billion yuan (\$19.23 billion) to 150 billion yuan (\$28.84 billion), said its vice-president Liu Tinghuan.

The move is designated to tap the economic potential of China's existing industrial and processing firms while raising their technology levels.

In the coming five years, Liu said, the loans will first be used to support development of the country's basic industry and technical renovation projects in the processing industry in order to create an improved ratio between the two.

In detail, top priority in providing the loans will be given to energy resources, raw materials and communications industries while encouraging the localization of imported foreign technology, he said.

At the same time, Liu said, more than 60 percent of the planned loans will be provided to State-owned large- and medium-sized firms to support their technical renovation projects.

Furthermore, the loans will also be used to rationalize industrial, product and enterprise structures in order to promote technology progress.

These measures include adopting new technology and new production methods, replacing old and outdated production equipment, and reducing energy consumption.

In the past 10 years, the bank has provided a total of 121.8 billion yuan (\$23.42 billion) in loans to China's 110,000 technical renovation projects, of which 23,000 projects belong to State-owned large- and medium-sized firms, Liu said.

Others include 8,196 projects with imported technology and 9,825 export-oriented ones.

He said outstanding results of the bank's loans to technical renovation projects are reflected not only by the fact that those projects turned out some 1,500 national prize winning products and 1,200 products which filled national gaps, but also that they opened new sources for State revenue.

Authoritative statistics show that about 50 to 60 percent of the total newly-increased industrial output value,

profits and taxes in the past two years came from those technically renovated projects.

Of all the projects, more than 70 percent were financially supported by the bank, Liu said.

He also said the bank in the past 10 years mainly supported light, textile and electronics industries and made contributions to their rapid development.

As far as light industry was concerned, he said, the bank provided it with 21.3 billion yuan (\$4.09 billion) in loans to support the industry in developing about 8,000 new products or new varieties, including refrigerators, washing machines, air-conditioners and vacuum cleaners.

During that period, the bank gave 33.6 billion yuan (\$6.46 billion) worth of loans to about 10,000 technical renovation projects of China's textile industry.

Bank of China Plans Increase in Capital

OW0304090391 Beijing XINHUA in English
0819 GMT 3 Apr 91

[Text] Beijing, April 3 (XINHUA)—The Bank of China will increase capital by three billion yuan this year.

The Beijing-based ECONOMIC DAILY reported today that the increase will raise the bank's capital to over 18 billion yuan.

A Bank of China official was quoted as saying that the purpose of the increase in capital is to enable the bank to maintain a rational proportion of capital to the value of its property. The official pointed out that rationally proportioned capital is in line with proper bank management practices and business development.

The daily noted that this will be the bank's fifth increase in capital since 1985, and that the 1989 increase amounted to five billion yuan.

At present, the Bank of China has business relations with 1,422 banks in 153 countries and regions.

MINERAL RESOURCES

'More Rational Use' of Mineral Resources Urged

HK1903033791 Beijing CHINA DAILY in English
19 Mar 91 p 2

[By staff reporter Huang Xiang]

[Text] A senior government official yesterday called for strenuous efforts to make "a more rational use" of the nation's mineral resources.

And fulfilling the task may largely hinge upon a continuous implementation of the Mineral Resources Law, the industry's five-year-old guiding document, said Zhang Wenju, vice-minister of the Ministry of Geology and Mineral Resources.

Remarking on the Law's fifth anniversary, Zhang said that despite sizable reserves for most of the world's identified resources, China's per capita reserves are well below the world average.

And an equally unfortunate fact, according to Zhang, is the scarcity of high-grade and easily exploitable ore, which will make it difficult to reduce many imported minerals in the near future.

Zhang also warned that the benefit of increasing output has been partially offset by "massive waste."

Ministry statistics showed the industry's recovery rate ranged from 30 to 50 percent, below the world average and below even that of Brazil and India, which have similar scale of mining operations with China.

Huge mining losses also occur during extraction of associated minerals. Eighty percent of the nation's 162 identified minerals have associated minerals or intergrowth.

A recent survey of 246 large and medium-sized mines found that 80 paid no attention to these.

"Many usable minerals are simply abandoned," Zhang said, adding that the situation is believed to be worse among small and private miners.

Zhang conceded that the Mineral Resources Law, "despite tangible achievements," has yet to be carried out fully.

Regulations Adopted on Mineral Prospecting

OW3003044191 Beijing XINHUA Domestic Service in Chinese 1108 GMT 29 Mar 91

[By reporter Zhu Youdi (2612 1635 2769)]

[Text] Beijing, 29 Mar (XINHUA)—According to the State Administration of Mineral Reserves, China has so far adopted 50 sets of regulations on the standards of geological prospecting, thus completing the plan to set the standards for geological prospecting of major mineral resources. This is an important achievement in the legislation of mineral prospecting work.

These regulations involve the standards of such mineral ores as coal, petroleum, fluorites, graphites, antimony, boron, chromium iron, kaolin, natural gas, heavy spar, and silver; the stipulations on the comprehensive prospecting of salt lakes, terrestrial heat resources, stones for decorative surface, and in the coastal region; and the quality control of hydro-engineering geological and mineral experiments and tests in mining areas. In addition, three sets of general rules setting the standards for iron, phosphorus, and solid mineral resources will be completed soon. All these regulations show that China's geological prospecting has advanced to a new stage where there are laws to follow, and have laid the foundation for a quality control and guarantee system in geological prospecting work.

It is understood that China's mineral reserve administrative work has been gradually shifted from micro-regulation to equal emphasis on micro-regulation and macro-control. Efforts to actively conduct studies on

specific topics on the basis of extensive investigations, and to formulate and improve the legislation on mineral reserves will help raise the quality of geological prospecting work.

Report on Wafangdian Diamond Production

91CE0200A Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 49, 3 Dec 90 pp 16-17

[Article by Li Shanyuan (2621 0810 6678) and Zhao Changchun (6392 2490 2504)]

[Text] An economically valuable strip of land encircling the Gulf of Bo Hai between the tips of the Shandong and Liaodong peninsulas has always been called China's "golden necklace." Now, another precious jewel has been added to this "golden necklace" in form of a diamond mine at Wafangdian.

On 24 October, construction at the Wafangdian Diamond Mine, which has the greatest capacity of diamond mines in China, was formally completed and opened for production. With this step, China moved into the ranks of the world's "great diamond producers."

The town of Wafangdian comes under the jurisdiction of Dalian, one of China's 14 opened-up coastal cities. Wafangdian has always been known as "apple country" and "home of China's bearings [as in ball bearings] industry." Now that rich diamond deposits have been found in its midst, it is also known as "home of the diamond fields."

Sometime during the early 1970's, in a strip of land 28 km long and 18 km wide southwest of Wafangdian, the Sixth Geologic Survey Team of Liaoning Province's Bureau of Mines discovered three kimberlite deposit sites, 18 kimberlite pipes, and over 100 kimberlite veins. This constitutes 54 percent of all known deposits of diamonds among the large scale mine fields in China. Now this find has catapulted China into tenth place in the world today, in known diamond deposits.

The diamond is a rare precious stone, often called "the king of gemstones," "the king of minerals." With scientific advances, it has become an essential material used in modern industry and sophisticated scientific applications. Diamonds of superior quality are usually made into expensive jewelry and value assured products, their value often many times or a thousand times over that of gold. The standard for grading a diamond's value is based on its size and weight, and its lustrous transparency.

The diamonds found in the Wafangdian region are mostly colorless and transparent. Next are those of a light yellow coloring. The crystal structure of most of these diamonds is octahedral, followed by those that are dodecahedral, with a few seen as tetrahedrons. The rate of diamonds ending as finished products is high. They

are best suited for jewelry use, with 70 percent of the stones of gemstone quality weighing at least one carat each.

To awake this sleeping giant of a diamond treasure, the Wafangdian Diamond Stock Company, Ltd, was formed on 2 March 1987. In September of the same year, the State Planning Commission and the company formally signed an agreement which placed mined diamond products under the item of basic construction for light textile export, and approved capital investment in the order of 26.17 million yuan. Besides this, Dalian invested an additional sum for technical improvements, which placed the total amount invested at 58.69 million yuan.

The word for diamond is taken from the Greek "adamas" which means "unconquerable," and people have referred to this firm and durable quality as the "diamond spirit." On 10 October 1988, 400 diamond miners entered the No. 50 kimberlite pipe mine. Hidden more than 240 meters underground, shaped like a gourd with a long neck, the No. 50 pipe mine goes back 400 million years. During the next 297 days, these miners stripped 443,000 cubic meters of rock ore and installed 580 pieces of native and imported equipment, of which five imported from Australia are the most advanced in the world today. They also built a 26,000-square-meter processing plant and supporting facilities. A modern stone recovery plant capable of processing 270,000 tons of ore annually to yield 118,000 carats of diamonds is being built right now. Besides this, a tailings "storehouse" with a capacity of 300 cubic meters has been completed, and 20 km of piping of various kinds, 20 km of electrical wiring, and 13 km of communication lines have been laid or set up. China's largest and most technically advanced diamond industry at present is now located right here at Wafangdian.

The people who created this industry with their "unconquerable diamond spirit" have finally brought forth sparkling diamonds cupped in their hands. From 4 November 1989 to the end of August this year, their trial production and processing efforts have mined diamonds weighing a total of 48,000 carats that sold for 26.69 million yuan, netting a profit of 10.53 million yuan, and generating foreign exchange of U.S.\$4.64 million in its export.

Other known areas where natural diamonds are produced in China are located in Shandong, Hunan, and Liaoning provinces whose combined annual output of only 60 to 70 thousand carats is far from meeting the economic construction needs of the state. After construction at the Wafangdian mine has been completed, and the mine has begun operation, the volume of diamond production in China will increase more than 2-fold. This is of important significance toward increasing China's self sufficiency with respect to a need for this stone, and exerts a great effect toward her ability to generate foreign exchange.

The Wafangdian diamond mine has caught the attention of gemstone financial circles abroad. At present, businessmen from England, Australia, the United States, Taiwan, Hong Kong and South Korea have arrived to discuss business. According to some sources, a diamond processing joint venture with foreign businesses is expected to be set up, with construction to be completed by the end of the year.

Gong Yulong [7255 3768 7893], this company's chairman of the board, has a great deal of confidence in the future of diamond mining at Wafangdian. He said that by the end of the century, the diamond output here is expected to reach 250 to 300 thousand carats, that will generate more than U.S. \$30 million for the state.

Gold Production Rises 19.4 Percent

HK2303070791 Beijing CHINA DAILY in English
23 Mar 91 p 2

[By staff reporter Ren Kan]

[Text] China's gold industry maintained its steady growth during the first two months of this year.

Although the specific figure of gold output is a closely-guarded State secret, China Daily was told the January-February production rose by 19.4 percent over the same period last year.

The first two months' gold output accounted for 13.2 percent of the state-set total output for this year, an official with the State Gold Administration said yesterday.

He said major gold producing provinces, including Shandong, Liaoning, Hebei and Shaanxi, had enjoyed steady growth during this year.

The output of gold in China has continued to increase at an average annual rate of 11 percent over the past decade.

Increasing gold production is one of the country's measures to increase its credit rating and its ability to meet debt obligations.

China is expected to pay back about \$10 billion a year from 1992. The latest gold reserve figure released by the People's Bank of China was 12.67 million troy ounces.

Meanwhile, the rise in gold output will also lead to a healthier development of the national economy, helping to stabilize prices through the withdrawal of currency from circulation.

State councillor Li Guixian last year was appointed the head of the Gold Industry Leading Office of the State Council, indicating the high status of the growing gold output in the country's economy.

Li is also the governor of the People's Bank of China.

The official attributed the first two months' rise in gold production to priorities given to the gold industry in terms of supplies of electricity, raw materials and transportation facilities and investment.

During the next five years, the government will give seven to eight billion yuan (\$1.35 to \$1.5 billion) for the gold industry's fixed assets investment, nearly double that of the 1986-90 period.

The newly-formed gold production capacity during the past five years was three times more than that of the 1981-85 period.

Largest Copper Mine To Double Capacity

*OW0803142091 Beijing XINHUA in English
1353 GMT 8 Mar 91*

[Text] Nanchang, March 8 (XINHUA)—A new mining project has been completed in the Dexing copper ore mine—the biggest copper ore producer in China, thereby doubling its daily output to 60,000 tons.

Results of a geological survey conducted in 1955 showed that the Dexing mine was the largest open-pit porphyritic copper mine in Asia. The mine had a proven copper reserve of over 1.52 billion tons, in addition to large deposits of other rare minerals including gold, silver, sulphur and molybdenum.

Since 1984, the mine has supplied the country with over 40,000 tons of copper annually.

When the current (third phase) extension project is completed in 1993 the mine is expected to have a daily ore production capacity of over 90,000 tons, while yearly copper production will reach 80,000 tons.

"The ore from Dexing plays a key role in the development of the country's copper industry," said Zhang Jian, vice president of the China Nonferrous Metals Industrial Corporation.

Mineral Shortages Expected in 'Near Future'

*OW2003060791 Beijing XINHUA Domestic Service
in Chinese 0847 GMT 16 Mar 91*

[By reporter Zhu Youdi (2612 1635 2769)]

[Text] Beijing, 16 Mar (XINHUA)—China consumes more mineral resources than it prospects. Acute shortages of mineral resources are expected to occur successively in the near future. A quarter of the 45 major minerals needed in the next decade will fail to satisfy demand. The Ministry of Geology and Mineral Resources has urgently called for applying science and technology to raising mining, dressing, and smelting standards; expanding the per-unit utilization of mineral resources; and developing a resource-efficient economy.

According to the Ministry of Geology and Mineral Resources, China's mineral resources are generally characterized by large total quantity, small per-capita share,

unbalanced distribution, and low ore content. There are many mixed ores, but few with pure contents. While small- and medium-scale mineral deposits abound, there are few exceptionally large or large deposits. These characteristics are decisive factors leading to China's relative shortage of mineral resources; difficulty in mining, dressing, and smelting; and increases in investment and production costs. The next decade will experience deficiencies in seven of the 15 key staple minerals used primarily to develop the national economy. Major nonferrous metals have either been mined substantially or virtually exhausted. A significant number of mines face the prospect of shutdowns because its deposits will be exhausted shortly. Increasingly acute shortages of water resources are also expected in the near future. A total of 188 cities throughout China experience daily shortages of 12.4 million cubic meters of water. It is necessary to modify the concept that views our country as having "a vast territory and abundant resources."

The Ministry of Geology and Mineral Resources has called for radically restructuring the industry and defining the status of prospecting and mining as basic industries in the national economy, in order to change the chronically stagnant state of these industries in China. It has also called for adopting the policies of stockpiling strategic mineral products and resources and mining special mineral resources on a protective basis; further strengthening law enforcement and supervision over mineral resources; launching a society-wide publicity and educational campaign on the nation's mineral resources; and intensifying the development and protection of mineral resources.

INDUSTRY

1990 Chemical Industry Output Up 13.8 Percent

*HK1603025691 Beijing CHINA DAILY in English
16 Mar 91 p 2*

[By staff reporter Zhang Yu'an]

[Text] Chemical industrial output value rose by 13.8 per cent in the first two months of this year compared to the same period in 1990, CHINA DAILY learned yesterday.

During the period, the industry turned out 21.70 billion yuan (\$4.17 billion) worth of products, according to a report released by the Ministry of Chemical Industry.

In February, its output value reached 10.37 billion yuan (\$1.99 billion), with a daily output worth 370 million yuan (\$71.15 million), up 1.4 per cent over the previous month, the report said.

The report said that because of a guaranteed supply of funds and raw materials, chemical output in the country's 12 provinces, autonomous regions and one municipality was higher than the national average in the first two months of this year.

They are the provinces of Hebei, Liaoning, Jiangsu, Zhejiang, Jiangxi, Shandong, Hunan, Guangdong, Guizhou and Qinghai, the Inner Mongolia and Xinjiang Uygur autonomous regions and Shanghai Municipality.

At the same time, it said, production of agricultural-production related chemicals, such as chemical fertilizers and farm pesticides, continued to increase in January and February despite a slack season for sales.

By the end of last month, output of China's chemical fertilizers reached 13.92 million tons, up 3.1 per cent over the same period of last year.

Meanwhile, the industry turned out 36,000 tons of farm pesticides in the first two months of this year, up 9.1 per cent.

But the report said that despite the long-term problems of short supplies of funds, raw materials and energy resources, the chemical industry is now facing more problems regarding chemical fertilizer stockpiles.

The worst hit are small-sized chemical fertilizer factories, whose output accounts for about half of China's annual total.

By the end of last month, it said, stockpiles in those factories throughout the country reached more than 6.27 million tons.

The figure represented an increase of 70.6 per cent over the same period of last year, a record high.

The stockpiles meant those factories were unable to run at full capacity.

By the end of last month, only 73.7 per cent of those factories were running normally, down by 10.5 percentage points compared with the same period of last year, it said.

Factories in Hebei, Shanxi, Liaoning, Jiangsu, Anhui, Shandong and Henan provinces suffered most.

In Guangxi Zhuang Autonomous Region, only slightly more than half of its 31 small-sized chemical fertilizer factories were in operation and some of them had to halt production in the third quarter of last year because of high stockpiles.

Huanghua Slated for Key Chemical Production Center

*OW1803092091 Beijing XINHUA in English
0901 GMT 18 Mar 91*

[Text] Shijiazhuang, March 18 (XINHUA)—Hebei Province's Huanghua City, which is located on the west bank of Bohai Sea, is expected to become one of the major chemical production centers in north China.

The city, which has rich salt resources, has a 55 kilometer of coast line and over 13,000 hectares of older land.

In an effort to open the polder areas—areas reclaimed from the sea—and make full use of its salt resources, the city constructed a 88.75 km railway, which links Huanghua with Cangzhou, another city in the province.

In 1986, the city completed construction of a 1,000 dead-weight-ton (dwt) commercial harbor. The harbor now has two 1,000 dwt berths which have an annual handling capacity of over 50,000 tons.

Since 1989, the city has invested over 23 million yuan in technical improvements and the expansion of 21 saltworks.

Statistics show that the city's saltworks cover an area of 13,000 hectares and produce over 800,000 tons of crude salt annually.

To date, the city has established more than a dozen chemical industrial enterprises, which are mainly engaged in producing caustic soda, liquid chlorine, hydrochloric acid and extracts.

In 1989, the city invested over 41 million yuan to construct the Huanghua Chloro-Soda Plant in cooperation with the Huabei Pharmaceutical Factory. The plant is expected to produce 10,000 tons of caustic soda annually.

Sichuan Promotes Machinery, Electronics Exports

*OW1803022591 Beijing XINHUA in English
0121 GMT 18 Mar 91*

[Text] Chengdu, March 18 (XINHUA)—Southwest China's Sichuan Province has sold machinery and electronics products to more than 100 countries and regions in the past few years.

In 1990 alone such exports earned the province 226 million U.S. dollars.

Previously Sichuan's export commodities were mainly agricultural and primary products, but since 1985 its exports of machinery and electronics products have increased at an average rate of 63 percent a year.

Sichuan is one of China's three-biggest thermal power equipment production bases. Its power equipment has been exported to dozens of countries, including Pakistan, Indonesia, Bangladesh, Thailand, the United States, Canada and Peru. In addition, production and export of metallurgical and mining equipment, petrochemical machinery, airplane parts, motor vehicles and household electrical appliances have seen rapid growth.

Shenyang High-Tech Development Zone Progresses Rapidly

*OW1403172191 Beijing XINHUA in English
1554 GMT 14 Mar 91*

[Text] Shenyang, March 14 (XINHUA)—The Nanhu new and high technology development zone in Shenyang

City, capital of northeast China's Liaoning Province, made marked achievements in 1990.

The zone, one of the 12 major high-tech development zones of the country, covers an area of 22 sq km. It was established in 1988.

The zone boasts 12 colleges and universities, 27 scientific institutes, three state-level scientific experimental bases and more than 200 large-sized laboratories.

In 1990 more than 200 new technical enterprises in the zone developed a total of 120 kinds of high and new technologies, earning over 200 million yuan. Earnings from export of new technologies and related products stood at one million U.S. dollars.

To date, high-tech enterprise groups involving automation, information, new materials, biological projects and laser technologies have been formed in the zone. These enterprises have finished the development of more than 500 new technologies.

New technologies developed in 1990 include top-grade numerical control systems, superthin strips, and high efficiency, energy-saving active electrodes. Some of these items have been put into batch production.

Statistics show that by the end of 1990 the zone had approved ten foreign-funded enterprises, with a total of three million U.S. dollars in foreign investment.

Local government officials told XINHUA that this year's major task for the zone is to develop economies of scale and develop the foreign-oriented economy.

The officials also said that, from now to 1995, the zone will focus its attention on the development of industrial robots, hydrogen-bearing materials and other high-tech materials.

Upgraded Technology Advances Industrial Development

*OW2003081391 Beijing XINHUA in English
0648 GMT 20 Mar 91*

[Text] Beijing, March 20 (XINHUA)—The ongoing technology upgrading drive has greatly helped promote industrial development and pushed forward the national economy of China in the past 10 years or so, according to the State Planning Commission.

Statistics show that from 1979 to 1989 China completed more than 410,000 technology upgrading projects, 20,000 of which involved imported technologies, according to the overseas edition of the PEOPLE'S DAILY today.

The total investment in the technology upgrading drive so far has been 495.6 billion yuan (about 99.1 billion U.S. dollars). Imported technologies cost the country 15.7 billion U.S. dollars.

In return, the completed projects produced an annual value of 571.96 billion yuan with pre-tax profits of 148.9 billion yuan. Their annual export volume has increased by more than 700,000 U.S. dollars.

The projects have manufactured 4,109 kinds of products that have won state gold and silver medals.

By the end of last year a total of 4,188 firms had been named first- or second-grade enterprises.

The first exhibition on the achievements of the technology upgrading drive in Chinese industrial enterprises, which is scheduled to open March 21, will show nearly 10,000 varieties of products made by 1,200 enterprises.

Crude Steel Output Increases

*OW2003125491 Beijing XINHUA in English
1046 GMT 20 Mar 91*

[Text] Brussels, March 20 (XINHUA)—The crude steel output of the 35 countries and regions of the Brussels-based International Iron and Steel Institute (IISI) amounted to 36.4 million tons in February, 3.1 percent less than the 37.6 million tons produced in February 1990.

According to IISI reports received here today, the United States showed a sharp decrease of 19.2 percent from 6.916 million tons in February 1990 to 5.586 million tons of the same period of 1991. Production of the European Community at 10.788 million tons was 4.1 percent below the figure of the previous year. Japan's February output was 8.8 million tons, 6.8 percent above the figure in February last year.

The Soviet Union's and Eastern Europe's production of 13.9 million tons was 11.8 percent less than the 15.717 million tons produced in February 1990.

China's production was 5.217 million tons, an increase of 6.1 percent compared with the 4.918 million tons of in February 1990.

Total output in February 1991 in the 41 countries and regions which accounts for 95 percent of total world crude steel production, was down 4.7 percent to 55.534 million tons.

Production over the first two months of this year was down 3.1 percent to 117 million tons in the 41 countries and regions.

Petrochemical Industry Plans Project Expansion

*OW2003100491 Beijing XINHUA in English
0811 GMT 20 Mar 91*

[Text] Beijing, March 20 (XINHUA)—China plans to construct or expand 14 ethylene projects with a combined annual production capacity of two million tons in the next five years, the overseas edition of PEOPLE'S DAILY reported today.

In addition to the ethylene projects, the China Petrochemical Corporation will also build a number of projects to increase its annual chemical fiber production by 200,000 tons and synthetic ammonia production by 900,000 tons. The planned projects are scheduled for completion during the Eighth Five-Year Plan period (1991-1995).

Sheng Huaren, general manager of the corporation, said that during the Seventh Five-Year Plan period (1986-1990), four ethylene projects with annual production of 300,000 tons each were constructed in China. The four plants, which are located in Daqing, Shandong, Jiangsu and Shanghai, increased the country's total production capacity of ethylene to 1.96 million tons. However, China must still import nearly three-fourths of required ethylene and chemical fiber materials.

As a result of the deficiency in production the corporation decided to increase the number of new projects in the coming years.

The projects include construction or expansion of plants in Maoming, Jilin, Guangzhou, Tianjin, Zhongyuan, Xinjiang Dushanzi, Shijiazhuang, Beijing, Sichuan, Guangdong, Huizhou and Baling. In addition projects are scheduled for the Shengli oil fields in Shandong Province.

The projects will mainly include construction or expansion of existing petrochemical plants. Projects will be in the form of joint ventures between the central and local governments, as well as with foreign firms.

Sheng said that his corporation will explore additional possibilities and channels of investment funds and will expand technological exchanges with other countries. He said that his corporation welcomed any form of foreign investment.

A number of foreign financial organizations and firms have expressed an interest in cooperating in the projects. Interested parties include the World Bank, as well as firms from Japan and the United States, according to Sheng.

SMALL-SCALE ENTERPRISES

Assessment of Township Enterprises in 1990

91CE0199A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 49, 3 Dec 90
pp 3-4

[Article by Wang Jian (3769 1017): "Assessment of the Development of China's Township Enterprises in 1990"]

[Text] For most Chinese entrepreneurs, 1990 was not an easy year. The shortage of funds, the sluggish market, and the debt chains all created a variety of obstacles to

enterprises' production and operating activities. However, an analysis of statistics from departments responsible for the work of enterprises shows that, on the basis of the improvement and rectification over the previous two years, in 1990 China's township enterprises again underwent severe tests, yet they continued making steady progress even in the difficult times. Predictions are that in 1990 township enterprises may have maintained a growth rate of about 10 percent, and a gross value of output of 950 billion yuan is within sight.

People in economic circles point out that the timely readjustment and tenacious growth of China's township enterprises in 1990 has largely eased the landslide in production and economic returns in the overall national economy. Township enterprises have played the most important role in helping the national economy move out of the trough of the economic cycle.

Township Enterprises Reaffirmed

Since 1990, the steady growth of township enterprises in China should give credit first to the positive and reaffirming attitudes, as well as the policies, governments at all levels adopted toward township enterprises. It is this support that created a relatively good external environment for the development of China's township enterprises.

As everyone knows, in the more than 10 years of reform and opening up, township enterprises have emerged as "a new force coming suddenly to the fore." They have attracted great attention and received positive comments at home and abroad. Yet the path of development for China's township enterprises has been very tortuous. People judge township enterprises both positively and negatively. There is praise as well as blame. Since China began improvement and rectification in 1988, township enterprises have been the first units to be affected, facing pressures from all directions. Since the "4 June incident" in 1989, a cold wind has blown, blaming township enterprises. Some places imposed "restrictions" and "pressure" on township enterprises in the name of improvement and rectification. Some departments also discriminated against and restricted township enterprises. In some places in Hunan Province, the phenomenon of indiscriminate transfers of township enterprises even occurred. All of these made employees of township enterprises very anxious; their feelings fluctuated enormously. Production was greatly hurt, and some township enterprises had to close. In January 1990, township enterprises' rate of growth dropped by a big margin compared with the same period in previous years: the growth rate was only 2 percent. Some provinces and counties in which township enterprises were relatively well-developed even had negative growth.

How do we objectively evaluate China's township enterprises? The facts show that great and deep changes took place in China's rural areas after reform. Such changes were closely related to the rise of township enterprises.

According to statistics, current output values of township enterprises account for more than half of the gross value of agricultural output. In the past three years, more than half of the net growth of farmers' income has been due to township enterprises. To date, township enterprises have become an important pillar in today's rural economy, as well as in China's overall national economy.

Judging from these facts, since 1990, concerned leaders from the party's Central Committee and from the central government have made positive and reaffirming comments on China's township enterprises on various important occasions. They have reiterated a series of policies for stabilizing township enterprises. From the center to local areas, people have formed a common understanding that township enterprises can only be stabilized, and not negated. In June 1990, the State Council promulgated the "Regulations on Enterprises Owned by Rural Collectives in the People's Republic of China." Township enterprises in China have obtained legal recognition and protection.

Structural Readjustment

At the beginning of improvement and rectification, China's township enterprises seemed somewhat unable to adapt. However, since 1990 they have shown an amazing adaptability to change. The most convincing point is that, in the shadow of the soft market, many enterprises have turned the difficulties created by the sluggish market into opportunities to readjust product structures. By exploring new or high-quality products, they rely on new or high-quality products to progress. This fully shows that township enterprises have a tenacious ability to survive and a vitality to develop. In the first half of 1990, township enterprises in Chaozhou, Guangdong Province, eliminated 68 kinds of out-of-date products through readjustment. They explored nearly 400 new products and created over 2,600 new designs and models. Compared with the same period in 1989, their total incomes and after-tax profits increased by 28.2 percent and 18 percent respectively. Township enterprises in some provinces and municipalities, like Shandong, Henan, and Beijing, also scored remarkable achievements in exploring new products.

China's township enterprises did meet the difficulty of fund shortages, and overcame it through their own efforts to raise a lot of funds by collecting money and shareholding methods. The state also increased its loans to them. Some people in economic circles believe that although China's energy, raw materials, and transportation situation has improved in 1990, the two pressures of a soft market and fund shortages still exist. Under such circumstances, township enterprises readjusted product structures and achieved remarkable success. They have really done a nice job, and it has not been easy.

The most notable thing is that township enterprises have maintained a good momentum in developing the externally-oriented economy since 1990. In Jiangsu Province, the number of township enterprises earning foreign

exchange increased to over 4,000 in the first half of 1990. Their exports of machines and electronics increased 1.2-fold over the same period in 1989. In 1990, areas in East China put forward the strategic measures of "using the externally-oriented economy to supplement and promote the internal one." By relying on flexible mechanisms in their business activities, many township enterprises can develop new products rapidly, deliver them swiftly, and ensure product quality. They are trusted by more and more customers at home and abroad. According to predictions by departments responsible for the work of township enterprises, the volume of foreign exchange earned by China's township enterprises could reach \$13 billion, an increase of more than 30 percent over the same period in 1989. The foreign exchange earned by township enterprises will account for a quarter of the total volume of foreign exchange earnings.

There is no need to conceal the fact that several hundred thousands township enterprises were closed because of poor performance. However, it is this readjustment that enables the original factors of production to flow and reorganize according to the principle of excellence. The Wanxiongjie Factory in Hongzhou turned losses into profits several months after it merged five enterprises that had experienced losses. In similar reorganizations, the developmental momentum of conglomeration for China's township enterprises has become clearer in 1990. Today's markets have become increasingly competitive. People have gradually recognized that although "a small boat may change course quickly," "a large boat may weather heavy seas."

Along with the development of the socialized service system in China's rural areas, and further reforms in the area of circulation of agricultural and sideline products, China's township enterprises are actively preparing to explore a new frontier in the service industry.

On the whole, structural readjustment in China's township enterprises in 1990 has basically met the requirements made by departments responsible for the work of township enterprises. The requirements include the swift readjustment of the product structure, slow readjustment of the production structure, and slight readjustment of the industrial structure.

Improving Quality

Congenital weaknesses, such as poor management levels and backward technology and equipment, have been important reasons behind people's negative comments about township enterprises. Indeed, several years ago China's township enterprises had an image of "puffiness," because they only sought quick development and output values. Since improvement and rectification started, and faced with a market that has become unusually "fastidious," more and more township enterprises in China have the deep feeling that enterprise quality is the key to the survival and development of enterprises. In this year's improvement and rectification, many enterprises worked hard to improve their own internal

quality. In 1990, "Enterprises Management Year" activities were widely conducted in township enterprises nationwide. Enterprises' internal basic management and the management of special items greatly improved. On the basis of this improvement, township enterprises started moving towards applying modern management methods. According to officials from the Ministry of Agriculture, another 50 more township enterprises will be raised to second class according to the state's standard for evaluating enterprises. The Wanxiongjie Factory has passed the examination for the state's first class standard. This shows that township enterprises—which have been a "new force" composed mainly of numerous peasants—are starting to become part of the "regular force" in China's national economy.

In fact, the quality of China's township enterprises has constantly improved in recent years. The state's "Spark Plan" strongly promoted technological progress in township enterprises. The proportion of superior-quality products produced by township enterprises has risen. Some products have also earned a good reputation in the international market. A report entitled "The Best of China's Township Enterprises" indicates that the number of high-quality products produced and the number of high-level equipment owned by township enterprises reaches into the several hundreds. They involve electronics, light industry, textiles, building materials, and many other industries. Some of them rank high in Asia as well as in the rest of the world.

Of course, the development of township enterprises in different areas of China in 1990 shows a lack of balance. Some enterprises are still very "spirited," some need to "take a breath," some need "oxygen," and some have already "breathed their last." This indicates that, with a similar external environment, the self-quality of township enterprises is the key point to determining their own destiny. It is because of this that the Ministry of Agriculture has already instructed that township enterprises must carry on "Enterprises Management Year" activities year by year. Township enterprises must improve their own quality, turning "puffiness" into real "fat."

Worries Amidst Happiness

Although the general situation of China's township enterprises has developed in a positive and healthy direction in 1990, it does not mean that everything has gone smoothly.

One notable problem is that economic returns of most enterprises have declined. In the first half of 1990, realized net profits dropped by 5.8 percent compared with the same period in 1989. The amount of the decline in some provinces and municipalities was as much as over 40 percent. Although there are many reasons for the drop in economic returns, people worry about the consequences if the drop in economic results is not reversed. Raising enterprises' economic returns depends mainly on tapping enterprises' potential. However, currently

improving the external environment is also very important. Problems such as the debt of public funds, unreasonable charges, and unreasonable apportions urgently need to be resolved. Since 1990, in many areas lots of township enterprises have changed their names and become state-owned enterprises. This is said to be a "countermeasure" to the policy of the state's enhanced macroeconomic regulation and control, and its purpose is to enable these enterprises to enjoy the state's policies that are favorable to and slanted toward state-owned enterprises. In view of this, when comparing township and state-owned enterprises, the former still have the status of having "no real name and no real say," and laboring under unequal competition. This is a problem that needs to be resolved both in theory and in practice during the process of establishing a new economic system that integrates both the planned and market economies.

In addition, another big issue to put on the agenda is how to combine ecological and environmental protection in rural areas with township enterprise development. As indicated by the introspection made by southern Jiangsu Province, where township enterprises are well-developed, the development of township enterprises should not be based only on generating money, with no consideration of the threat it poses to people's living environment. The development of township enterprises should take into account both making money and protecting the environment.

Although there are many problems, contradictions, and perplexities, the actions of China's township enterprises in 1990, which will soon come to an end, show that the development and strengthening of township enterprises is irreversible. After undergoing the test of the current improvement and rectification, township enterprises will become more mature.

FOREIGN TRADE, INVESTMENT

More Caution Urged in Overseas Borrowing

91CE0247A Dalian CAIJING WENTI YANJIU
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PROBLEMS] in Chinese No 12, 5 Dec 90 pp 24-27, 20

[Article by Sun Jie (1327 2212): "Foreign Debt Management"]

[Text] 1. The Concept and Scope of Foreign Debt

Defining foreign debt scientifically and accurately and understanding it correctly is a precondition for managing it. The definition, of course, may vary depending on one's perspective and as circumstances and the need of management change. Basically, however, it means the debts a nation owes to other nations, referred to as foreign debt for short. In the "Detailed Regulations for Foreign Debt Management" published on 10 November 1989, the State Administration of Exchange Control

defines foreign debt as "all debts directly incurred overseas that are denominated in a foreign currency and must be repaid under a contractual relationship." There are two points about this definition that need to be clarified. First, foreign debt refers to funds raised abroad by domestic enterprises, institutions, and units. Naturally these funds are denominated in a foreign currency. Second, such borrowing involves a legal contractual relationship, not an oral agreement or a written agreement that is legally invalid.

According to this definition, China's foreign debt includes the following:

1. Loans by international financial institutions: Loans provided by the International Monetary Fund [IMF], the World Bank, the Asian Development Bank, the Agricultural Development Fund of the United Nations, and other international and regional financial organizations;
2. Loans by foreign governments: Loans for aid and development provided by foreign governments to China;
3. Loans by foreign banks and nonbank financial institutions: Loans provided by overseas banks, other nonbank financial institutions, and banking consortia;
4. Buyers' credit: Loans provided by a foreign bank that issues export credits to a Chinese importing unit or bank to pay for exports [as published] of equipment;
5. Loans by foreign enterprises: Loans provided by nonfinancial institutions overseas;
6. Issues bonds in a foreign currency: Bonds issued by a Chinese organization on the foreign capital market and denominated in a foreign currency;
7. International financing leasing: Short-term leasing provided by an overseas leasing organization to a domestic organization;
8. Deferred payment: Provided by a foreign exporter to an importing department inside China; the latter is required to make payment only 3 months after the imported merchandise enters China;
9. Debt directly repayable in spot foreign exchange in compensation trade: Loans to be repaid in spot foreign exchange or, with permission, in commodities. Included in this category are loans to be paid back using foreign exchange earned by exports;
10. Other forms of foreign debt;

2. The Need to and the Task of Utilizing and Managing Foreign Debt

A decade of experience in reform and openness proves that China has been remarkably successful in utilizing foreign capital and borrowing overseas, which has promoted national economic development. However, a number of problems have also appeared in the course of practice that deserve our attention. In the 1980's, in particular, the debt crisis in developing nations not only

became the focus of world attention but also sounded an alarm for us. We should learn a lesson or two from these nations and improve foreign debt management to make it healthy and successful and turn overseas borrowing into a sound and important channel of utilizing foreign capital.

1) Lessons from the Debt Crisis of Developing Nations

According to the debt report of 19 December 1988 issued by the World Bank, developing nations had accumulated a total of \$1,320 billion in foreign debt, of which \$410 billion were owed by countries in Latin America and \$220 billion by countries in Africa. In recent years, over 40 developing nations in Eastern Europe, Northern Europe, and Latin America have successively found themselves in a debt crisis. Some have declared unilaterally that they are unable to meet debt obligations and asked for a rescheduling of their debts. Others demand that their loans be forgiven. Massive debts have become a crushing burden on the economies of these nations. They need foreign capital to finance construction, yet they cannot raise foreign capital because they fail to meet existing debt repayment obligations. The upshot is serious economic setbacks. In late 1987, for instance, Poland's foreign debt was a whopping \$39.2 billion, or more than \$1,000 on a per capita basis. The country could not pay back foreign loans on schedule and the people's livelihood was also badly affected.

There are many reasons for the debt crisis in developing nations. Some are internal reasons and have to do with the way the countries manage themselves. Others are external factors. First, the internal reasons: To begin with, some nations have no scientific management system. Debt management is chaotic. The statistics system is deficient. There is a lack of information on foreign debt. People in charge of foreign debt management do not know where to begin. Second, too many loans become due in an overly short period of time. The loans are concentrated in just a tiny handful of currencies. Interest rates are too high. All this makes debt repayment that much more difficult. Third, there are no rigorous controls on the scale of borrowing. Loans are taken out irresponsibly and goods are imported irresponsibly, without considering how much foreign exchange the country can earn each year. Turning to external factors, the steady rise in interest rates on the international capital market has increasingly burdened debtor nations. According to estimates by the World Bank, debtor nations must pay \$10 billion more in interest each year for every 1 percentage point increase in interest rates. Already developing nations are shelling out \$50 billion a year in interest payments. In the past few years, in particular, some economically developed nations, in pursuit of national interests, have adopted trade protectionism and limited imports. As their exports languish, developing nations have an even tougher time repaying their loans.

The international community has acted or is planning to act to ease the debt crisis by forgiving debts, issuing new bonds in exchange for old debt, and capitalizing bonds, but the effects have been limited. The debt crisis has not been resolved fundamentally. The debt crisis of developing nations has taught us a hard lesson; we should realize soberly that to avoid repeating their error, we must never stop studying the changes in the international financial market and work hard on the three links—borrowing, utilization, and repayment—and solve the problem at its root.

The debt crisis and massive foreign debts seriously hampered national economic development. First, it makes it difficult to balance revenues with expenditures, thereby widening the budget deficit. Under the historical circumstances determined by economic structural reform, China has had problems balancing its budget in recent years. The adjustment of the industrial structure, the improvement of the people's welfare and living standards, education development, and technological reform in enterprises all require huge sums of money. Between 1980 and 1987, revenues increased at the average rate of 11.6 percent each year, but they still fell short of what the budget required, resulting in a budget deficit several years in a row. In the same period, however, the amount of debt repaid was expanding at the rate of 13.1 percent annually, straining the treasury and worsening the budget further. According to preliminary calculations, between 1980 and 1987 China ran up a total budget deficit of 39.96 billion yuan (in current yuan) and repaid 59.33 billion yuan (based on the exchange rate for the year in question) in foreign debt. Since a loan must be repaid when due, China's reputation being at stake, loan repayment is a rigid target. No doubt this has put additional strains on the budget and made the deficit worse.

Second, the debt crisis has helped push up price increases. Prices have been rising sharply in China in the past several years. While there are many reasons for this, we cannot but see that repaying foreign debt has added fuel to the flames. As noted above, paying off foreign debt has compounded our fiscal difficulties. A budget deficit necessarily leads to a bloated money supply, which, in turn, causes prices to go up. This is one side of the problem. The other side is that to increase exports and earn foreign exchange, we must adjust the domestic industrial structure, intensify capital construction, and develop raw materials industry and energy, all of which requires more government spending and pushes up demand. Moreover, when we ship more goods overseas, we have less supplies at home, thus widening the supply-demand gap, which is inflationary.

From the above analysis of the effects of paying off foreign debt on prices and balancing the budget, we can see the impact of foreign debt on national economic development overall. Of course this is just one side of the coin. The other side is that if utilized well, foreign debt

can increase effective supply and fuel economic development, as mentioned above. Here we will limit ourselves to the problems in the hope that they will be taken note of.

2) The Basic Tasks of Foreign Debt Management

Because the debt crisis and massive foreign debts produce serious consequences, we should improve foreign debt management. Foreign debt management involves two basic tasks:

1. Clarify the guiding thought behind foreign debt management. The guiding thought behind foreign debt management should be: Act independently and keep the initiative in one's own hands, be self-reliant, practice equality and mutual benefit, increase revenues, cut spending. Stress and publicize in particular the importance of paying off a loan on time and economize on foreign exchange expenses. Paying off foreign debt as scheduled depends on exporting and earning foreign exchange. Currently, Chinese exports are still predominantly made up of agricultural and industrial primary products, the prices of which are relatively low, which means less foreign exchange earnings. In some categories of products, the state even finds it necessary to use subsidies to protect exports. When the government borrows overseas, it has to pay interest, on the one hand, and take on the risk associated with interest rates, on the other. Since borrowing is not easy, we should value a loan. Under no circumstances can we borrow and import upscale consumer goods at the same time. We must cultivate the idea of waging an arduous struggle, working hard, and using foreign exchange frugally. Foreign debt management is a complex and difficult task. This is one point people who borrow money and spend money must clearly understand and handle seriously. They should be mindful of the risk of using a loan and improve the debt repayment responsibility system. Oftentimes a loan is not put to good use and the project involved fails to come to fruition, making it difficult to pay off the loan. The borrowing, utilizing, and repaying of a loan must be organically integrated, each assuming its own responsibility yet coordinating its actions with the other two.

2. Avoid the various risks attendant upon taking on foreign debt. One necessarily runs some risks when one takes out a foreign loan. How to avoid such risks so as to minimize losses is an important task in foreign debt management. Some of the risks are:

First, steer clear of the risks of the international debt crisis. The debt crisis in developing nations in 1984-85, for example, not only caused a large outflow of funds from these nations, but also made creditor nations impose even harsher borrowing terms and scrutinize loan requests more stringently, no doubt making the burden on debtor nations even more onerous. Therefore, we must borrow moderately and cautiously these days to prevent falling under foreign control as a result of our indebtedness.

Second, we must be on guard against risks relating to exchange rates. International exchange rates change constantly, so we must monitor them closely and choose the right currency to avoid losses that may result from fluctuating exchange rates. Between 1985 and 1987, for instance, the exchange rates between the Japanese yen, the U.S. dollar, and the German mark fluctuated wildly, with the yen and mark soaring and the dollar falling steeply. In 1985, the average exchange rate between the yen and the dollar was Y238:1. In 1987, it was 134.45:1, the yen having appreciated 77 percent. In those three years, had a country borrowed loans denominated in yen but was paid in U.S. dollars for its exports, it would have sustained heavy losses, which would have put it more deeply in debt. Thus, avoiding the risks associated with exchange rates is an important task in foreign debt management. 3. Cushion China against the effects of an international economic crisis. Economic crises occur regularly in the world today, differing merely in magnitude. Once a major economic crisis breaks out, it will send international trade stumbling, making it harder to export, and unsettle interest rates extensively. Thus foreign debt managers should watch economic developments and trends in the world closely and adjust the mix of loan maturing periods accordingly to make sure that most loans do not become due in the midst of a global economic recession or crisis.

3. How China Utilizes and Manages Foreign Debt

A proper assessment of China's foreign debt situation involves learning the right lessons and continuing to utilize foreign debt to speed up the four modernizations. By and large, China's foreign debt management is satisfactory, healthy, and effective. We have also accumulated many successful experiences in our day-to-day work and not yet run into the kind of debt crisis that has appeared in other developing nations. Provided we continue to work hard and solve the problems in our work in earnest, there will be no debt crisis in our future for these reasons. First, China's foreign debt, totalling \$41.3 billion or so in late 1989, remains a relatively small portion of the nation's GNP. Second, annual principal and interest payments also amount to a minor share of the foreign exchange earnings derived from exports for the year in question, 7 percent in 1987 and 17 percent in 1988. Internationally, the rule of thumb is to use 20 percent as the warning signal. Third, after adjustment, China has significantly lowered the growth rate of its foreign debt, bringing it below the GNP growth rate. In 1987, foreign debt increased 7 percent while the GNP expanded 9.4 percent.

Overall there are no major problems on the foreign debt front. Be that as it may, we absolutely must not neglect the problems in the utilization and management of foreign debt and promptly investigate and tackle any problems that may arise, conscientiously learning from international experiences in foreign debt utilization and management to make foreign debt management an even bigger success. Right now these are the major issues that

exist in the utilization and management of China's foreign debt or that we should be careful to avoid:

1) The scale of foreign debt. The so-called scale of foreign debt refers to the total amount of foreign liabilities of all kinds at any one point in time. A proper scale is a precondition for ensuring that foreign debt is utilized effectively and that China is able to continue to borrow overseas. There is a limit to the scale of foreign debt. We cannot borrow as we please, the more the merrier. If what we borrow exceeds our ability to pay back, then in no way will borrowing expedite economic development. On the contrary, it will undermine the nation's ability to withstand external economic turmoil and may even lead to a crisis. How to determine a proper scale of foreign debt and prevent foreign debt from getting out of hand, therefore, is a most critical issue. The conventional wisdom is that the overall scale of foreign debt should be conditioned by the nation's ability to export and earn foreign exchange. This is because what we borrow overseas must ultimately be paid back in foreign exchange. These are the criteria most often used in the world for monitoring purposes:

First, foreign debt should be less than 5 to 8 percent of the GNP.

Second, principal plus interest payments should be less than 20 percent of the nation's foreign-exchange export earnings (that is, the debt service ratio) for the year in question.

Third, foreign debt should grow at a rate less or equal to the growth rate of the GNP.

Fourth, use domestic monetary indicators such as the growth rate of the money supply and inflation during a specific period of time as constraints.

Of course, these are only monitoring criteria used externally as a reference. In some countries the debt service ratio exceeds 30 percent, even as high as 60 percent, yet there is no debt crisis. Other countries keep their debt service ratio below 20 percent, but still have a debt crisis. The key here has to do with other domestic factors, such as the ability of a nation's economy to absorb foreign capital, economic efficiency, management standards, and the availability of domestic matching funds.

Relative to the overall national situation, the scale of China's foreign debt is not large and, according to projections, will remain below \$40 billion or so during the Seventh Five-Year Plan, below or near the cut-off point under each of the criteria noted above. But we cannot but note that China's foreign debt has been increasing too rapidly. From \$1.2857 billion in 1984, it rose to \$2.5057 billion in 1985 and \$5.0146 billion in 1986. In each of the subsequent two years we doubled the foreign debt, pushing it to \$40 billion by the end of 1988, thereby turning China into the sixth largest debtor nation in the Third World, after Egypt. The alarm has sounded for us. In some areas the growth has been even faster, the result of too many units borrowing at the same

time. If we take into account the economic effectiveness with which loans are utilized, the availability of matching domestic funds, and the ability to absorb imported foreign technology, the problem is probably worse.

2) Debt structure. The so-called debt structure is the shares of the various kinds of loans and the proportionate relations between the different interest rates, currencies, and loan maturing periods. They are discussed in detail below:

1. The mix of loan types. At present these are the major loan types as far as China's foreign debt is concerned: loans extended by international financial institutions, loans extended by foreign governments, loans from foreign commercial banks and financial institutions, buyers' credit, the issue of bonds overseas, international financial leasing, deferred payment, and loans directly repayable with spot exchange in compensation trade. From the above list of loan types, we should choose selectively and put together a good mix. Among these types of loans, loans issued by international financial institutions and foreign governments charge lower interest rates and offer more favorable terms, while commercial bank loans usually mature faster and come with higher interest rates and more stringent terms. This requires borrowing units and foreign debt management agencies to secure more loans from international financial institutions and foreign governments while cutting back on commercial bank loans as appropriate.

The current mix of foreign loans is quite sound, but the share of international commercial bank loans is still a little too high. Between 1979 and 1985, for instance, of the \$15.66 billion in foreign loans actually utilized, 62 percent were international commercial bank loans. In the future this proportion should be lowered as appropriate while making an effort to obtain more government-to-government loans and loans issued by international financial institutions.

2. The mix of interest rates. The so-called mix of interest rates refers to the percentage of loans with floating interest rates versus the percentage of loans with fixed interest rates.

International commercial banks normally charge a floating interest rate for their loans while international financial organizations and governments usually charge fixed interest rates. The fact that interest rates constantly fluctuate in the international financial market increases the risk of borrowing abroad, requiring borrowing units and foreign debt management agencies to keep track of changes in international interest rates and study them conscientiously so as to come up with a reasonable mix of interest rates to cut losses.

3. Mix of loan maturing periods. This refers to the proportions of long-term loans, medium-term loans, and short-term loans. The crux of determining whether or not the mix of long-term loans, medium-term loans, and short-term loans is sound is to see that the maturing

periods are not overly clustered around a particular time. When the mix of maturing periods is not sound, it may mean that most loans will become due in one single year or within a few short years, during which time the nation would have major fiscal problems, which is not favorable to coordinated economic development. In China's foreign debt, the mix of maturing periods is basically sound at the moment; still there is an overly large proportion of short-term loans. In late 1985, for example, short-term foreign loans accounted for 59 percent of all China's foreign loans. That figure dropped to 40 percent in 1986 and a mere 18.25 percent in 1988, lower than the internationally accepted cut-off point. The international rule of thumb is that a nation's short-term foreign loans should ideally comprise about 30 percent of its total foreign loans. But this is not a hard and fast rule. An excess of short-term loans makes it difficult to utilize foreign loans properly. Accordingly the proportion of short-term foreign loan should be reduced as appropriate. Contain the growth of short-term loans while utilizing long- and medium-term loans more.

4. The currency mix of foreign loans. There should be a proper mix of currencies among the foreign loans so as to minimize the risks associated with exchange rates. In choosing the currency of a loan, we must not make the "weakness" or "strength" of the currency at the time the sole criterion. Instead, we should coordinate it with the currency in which the state earns its export foreign exchange, giving consideration also to the currency structure of the nation's foreign exchange reserves. To adjust the currency structure, we must tackle the issue at its source—the loans. Our loans must not be concentrated in a handful of currencies but should be diversified. Of course, this kind of diversification is only relative; it is not a case of the more, the better. Too many currencies may actually complicate management. The overriding considerations should be coordination and achieving a reasonable mix.

The main problem with the currency mix of China's foreign debt at present is a lack of variety: Most loans are denominated in dollar or yen. Between 1982 and 1986, 60 percent and 30 percent of China's long- and medium-term loans were in U.S. dollar and Japanese yen, respectively, with just 10 percent in other currencies. Despite the adjustment in recent years, we still have some way to go before the currency mix of our foreign debt coincides with that of our foreign exchange earnings. This kind of currency mix may also cause losses for China when the American dollar depreciates or when the yen and some Western European currencies (say, the West German mark) appreciate.

3) The Foreign Exchange Management System. The so-called foreign exchange management system refers to government regulations on the examination- and approval of foreign loans as well as their statistical and monitoring organizations and procedures formulated to ensure that the scale and mix of foreign debt are consistent with economic development and our ability to repay.

Under current government regulations, the State Administration of Exchange Control is in charge of the examination and approval of foreign loans as well as statistical work and supervision. As such it is the nation's foreign debt management agency.

It is only in the last 10 years that China has been borrowing overseas. Consequently, foreign debt management is characterized by fragmentation of responsibility when it comes to borrowing and management. At present this is the broad pattern of division of labor. The Ministry of Foreign Economic Relations and Trade takes care of the examination and approval of government loans and the contracts of enterprises of the three capital sources. The People's Bank of China is in charge of IMF loans and issues bonds overseas. The Ministry of Finance looks after World Bank loans and loans borrowed and repaid by the state centrally. The Ministry of Agriculture, Forestry, and Fisheries and the State Education Commission are responsible for loans from the Food and Agriculture Organization of the United Nations and the United Nations Educational, Scientific, and Cultural Organization, respectively. The Bank of China handles international commercial bank loans. The State Planning Commission is in charge of the scale of foreign debt, capital construction, and the examination and approval of projects for which foreign loans will be used. One good thing about multi-head management is that it can mobilize the initiative of all sectors.

These are the major problems in China's foreign debt management at present: 1) no authoritative centralized management organization; 2) too many units borrowing overseas; 3) no sound and comprehensive foreign debt accounting and statistical systems. Hence the urgent need to continue to perfect the foreign debt management system, intensify macroeconomic control, and step up the centralized and unified management of foreign debt in order to ensure the healthy development of China's foreign debt utilization work.

Xinjiang Considers Legal Factors in 'Opening Up'

91CE0255A Urumqi XINJIANG SHEHUI KEXUE
[SOCIAL SCIENCES IN XINJIANG] in Chinese No 6,
15 Dec 90 pp 1-7

[Article by Yan Dianqing (7051 3013 0615); responsible editor, Lian Zhenhua (6647 2182 5478): "Legal Issues in Xinjiang's Opening Up—Suggested Solutions"]

[Text] Editor's note: Opening up to the outside world involves a string of legal issues. The open policy is inseparable from legal protection. To properly resolve the legal issues in Xinjiang's drive to open up, the Law Institute of the Xinjiang Academy of Social Sciences has set up a "legal protection in Xinjiang's opening up research group" devoted to examining such issues and coming up with solutions. Research results will be published in a series of articles. This piece, the first in the series, was written by members of the group and is

published here for reference by leaders and personnel in foreign economic work. [end editor's note]

I

Since the Third Plenary Session of the 11th CPC Central Committee, Xinjiang has been implementing the open policy in earnest and established "opening up across the board, tilting to the West, cooperating with the interior, importing from outside, coming from the east, and going out to the west" as a guiding principle in its opening up. This has tremendous significance for improving Xinjiang's opening-up work now and in the future.

Xinjiang's opening up cannot be separated from protection under the law. This is because opening up itself is a major legal issue. Without protection by the law, it will be difficult to achieve the goal of opening up. So-called opening up to the outside world mainly means that China must open its door to the outside world and develop economic relations, trade with, and enter into scientific, technological, and cultural exchange with countries around the world. On the one hand, we must export manufactured goods to other countries; on the other hand, we must import from the outside commodities that we need as well as capital, science, technology, and management experience to develop the Chinese economy and expedite the realization of the four modernizations without delay. Whether putting together a joint venture, a contractual joint venture, or a wholly foreign-owned enterprise, or developing export-import trade, entrepot trade, or border trade, whether one is attracting foreign capital or importing advanced science, technology, or management, all these contacts involve laws, rules, and regulations, and need to be adjusted and resolved through the law. Thus Xinjiang's opening up cannot be accomplished successfully or with the expected results in the absence of the necessary legal protection. If management in accordance with the law is the road we must travel to develop the modern Chinese enterprise, then "protecting the open policy in accordance with the law" is the basic way to open up Xinjiang to the outside world smoothly and properly.

Opening up to the outside world is an important component of the development of foreign economic relations and trade as well as the development of foreign relations. In essence, it is a form of "economic diplomacy." So it is not simply a form of economic relations but will necessarily involve national sovereignty, independence, equality, mutual benefit and other matters of political principle. If we open up haphazardly and deal with the various issues in foreign economic relations as we please without understanding the basic laws, rules, and regulations involved, that will not only cause economic losses for the state and enterprises, but may also impair national sovereignty, independence, and dignity.

In addition, whether or not we correctly handle the various issues in foreign economic relations not only directly impacts the economic interests of both sides,

Chinese and foreign, but also affects the nation's reputation and its foreign image. As China's foreign economic relations and trade develop, economic disputes with foreigners will certainly increase daily. To handle these economic disputes correctly, we must rely on the nation's laws and regulations dealing with foreign economic affairs that are already on the books. If we enforce these laws and regulations firmly and handle all disputes in foreign economic relations properly on the basis of equality and mutual benefit so that the legitimate interests of both sides are protected, that will greatly enhance foreign businessmen's trust in China's open policy and make them even more confident about investing in China and building plants here. On the other hand, if we handle foreign economic disputes blindly and arbitrarily without the protection of China's economic laws, we may end up violating the principle of equality and mutual benefit, and damaging the legitimate interests of both sides. In that case, China's foreign image as well as the trust of foreigners in China's open policy will be badly undermined, to the grave detriment of the effort to open up China.

It need also be pointed out that traditionally China's economy has been a product economy with administrative orders and the wishes of senior officials essentially controlling and shaping China's economic development. In the wake of structural reform, we have abolished the product economy and put together a planned commodity economy. By respecting the role of market regulation and the law of value, we have enabled the enterprise to shake off the interference from administrative orders and the wishes of senior officials, and develop independently in accordance with objective laws. No doubt this is a giant step forward. At the same time, it must be recognized that excessive interference in enterprises by administrative orders and the wishes of senior officers has not completely disappeared. That being the case, the only way to overcome such interference in enterprises, to open up to the outside world completely, and put the open policy on the legal track of successful and healthy development is to strictly protect the work of opening up with the law and handle the various disputes that arise as we open up in accordance with the law.

II

In the past few years, Xinjiang has begun opening up to the outside world and achieved gratifying results under the organized leadership of the party committee of the autonomous region and other pertinent agencies. The number of areas involved in foreign trade has been rising steadily, as is the amount of foreign trade. Border trade is developing. Not only has a host of Sino-foreign joint ventures and contractual joint ventures been established, but we have also attracted foreign capital and imported advanced scientific and technical equipment. According to statistics from the agencies involved, over 50 countries and regions in five continents have established economic and trade ties with Xinjiang and foreign trade is now worth \$486 million. Over 30 enterprises "of the three capital sources" have been set up in Xinjiang, 57

pieces of advanced equipment have been imported, and \$205 million in foreign capital has been utilized. Xinjiang has made known at home and abroad its favorable terms, attracting enormous interest and attention on the part of many foreign businessmen. Following the completion of the international railway linking China and the Soviet Union and connecting Asia with Europe, the investment climate in Xinjiang is improving all the time. The pace of opening up will quicken and the extent of openness will increase. The prospects of opening up to the outside world are bright and expansive.

On the other hand, we must see that because of the inattention to legal protection in recent years and the lack of knowledge as to how to use the law to safeguard our legitimate rights and interests, many problems have arisen in foreign negotiations, in the signing of and compliance with foreign economic contracts, and in the resolution of disputes arising from such contracts. As a result, not only have we suffered heavy economic losses, but the work of opening up has also been directly affected.

These are the major problems in Xinjiang's drive to open up to the outside world.

First, there is the lack of feasibility studies on projects. As we all know, feasibility studies are what we base ourselves on as we cooperate and sign deals with foreign businessmen. Whether we are importing a piece of equipment or setting up a Sino-foreign joint venture or contractual joint venture, we must carry out a scientific and careful study of its feasibility beforehand. Only after it is firmly established that a project is feasible in every way, such as the source of raw materials, transportation, the supply of energy, markets, and economic results, can we sign an economic contract. In reality, however, the region has imported some equipment and set up several joint ventures without conducting any scientific and careful feasibility studies in advance. Instead, decisions were made simply on the basis of a few people's subjective wishes and projects were put together hastily. As a result, when a project was completed, problems arose with regard to raw materials, transportation, energy, markets, and economic results. Basically speaking, these projects were not "feasible." In the case of some other projects, so-called "feasibility" studies were carried out in advance but instead of examining the facts realistically, the studies only described the positive and ignored the negative. Their purpose was to win the "approval" of the authorities above. No wonder these so-called "feasibility" studies, which are mere formalities, have been dubbed "approvability studies." This is precisely why upon completion, some projects were not only not feasible and generated no profits, but have actually become a heavy burden, to the great detriment of cooperative relations between the two sides, Chinese and foreign.

Second, there is a lack of understanding of the financial resources of a particular foreign firm as well as its ability

to honor a contract. In economic dealings with foreigners, such understanding should be a major precondition for the conclusion of a contract. Thus whether we are thinking of importing a piece of equipment, setting up a Sino-foreign joint venture, or making an import/export deal, we must do our best to fully investigate and understand in advance the financial resources of the foreign businessman in question and his ability to comply with a contract. This is the only way to avoid being taken in and suffering heavy losses. In reality, though, some enterprises do not make an effort to arm themselves with such knowledge in their dealings with a foreign businessman, often deciding that he has ample financial resources and that they should work with him solely on the strength of his bragging or concluding that someone is "patriotic" and "trustworthy" merely because of the recommendations of a certain leader. As a result of rushing into contracts or establishing cooperative relations so rashly, they have suffered heavy losses. Among foreign businesses are fly-by-night operations and swindlers of all shapes and sizes. As soon as they make a profit, these people will disappear without a trace or declare bankruptcy even before the projects are completed, thereby putting their Chinese partners into a jam. All this has come about because of a lack of understanding on our part of their financial resources and their ability to honor a contract.

Third, the failure to abide by the principle of equality and mutual benefit. Abiding by equality and mutual benefit is an important principle in signing deals with foreigners. In the process of opening up to the outside world, the two sides are on an equal footing. All economic deals between us and foreigners must preserve the legitimate rights and interests of the Chinese side as well as look out for the legitimate rights and interests of foreigners. The only way to do so is to abide by the principle of equality and mutual benefit. In the past, however, some of the economic contracts entered into by enterprises did not firmly adhere to the principle of equality and mutual benefit. In their eagerness to put together a Sino-foreign joint venture and beat domestic competition, the enterprises often made unjustifiable concessions to their foreign partners, giving them one-sided advantages in such things as rights, obligations, capital inputs, sharing of profits, and risks, and damaging the interests of the Chinese side. This has put the Chinese partners in an extremely unfavorable position in foreign economic contracts.

Fourth, security is the legal guarantee by the debtor to the creditor that he will honor his obligation to repay the loan. If the debtor fails to fulfill his obligation to repay, the guarantor must assume related responsibility. That the guarantor guarantees means that he runs an enormous risk, which is why the pertinent Chinese agencies have made specific regulations prohibiting banks and enterprises involved from guaranteeing the registered capital loans of a foreign businessman. In addition, on 31 December 1984, the Ministry of Finance issued the "Circular Prohibiting Finance Agencies from Guaranteeing Economic Contracts." Yet some agencies in our

region have openly violated those regulations by signing contracts with foreign businessmen that not only explicitly require the Chinese partner to guarantee the foreign partner's huge loans, but in some cases also write extremely harsh conditions into the guarantee agreement. On one hand, the guarantor, as principle debtor, assumes full related responsibility. On the other hand, the guarantor, as the principle debtor, is required to give up all rights to demand damages, to sue, and to choose the jurisdiction in which the case is to be heard. Also, the agencies have failed to require foreign businessmen to provide the necessary property security and counter-guarantee. This means that when a foreign businessman borrows money to invest, he can make a profit without taking on any risk. The Chinese side, on the other hand, must assume all the risks as guarantor and principle debtor of the huge loans taken out by its foreign partner. Should the foreigner declare bankruptcy, the Chinese side must assume related responsibility for the foreign businessman and repay the loans for the latter. In the case of Huanqiu Hotel, a contractual joint venture between Xinjiang and Hong Kong interests, for instance, a Hong Kong businessman invested in the project using borrowed funds, for which the Chinese side acted as "unconditional" guarantor. After the Hong Kong businessman declared bankruptcy, the Chinese partner became responsible for the loan and sustained heavy losses. This is a typical example and teaches us a lesson we will not soon forget.

Fifth, failure to comply with a contract. Like domestic economic contracts, economic contracts involving foreigners govern the legal behavior of the parties concerned. Once a contract is signed, both sides, Chinese and foreign, are obliged to fulfill the terms in the contract in good faith. If one side violates the terms in the contract, it must be held liable for such violations. In reality, however, some foreign businessmen in Xinjiang have not fulfilled the terms of a contract in earnest. Others have openly breached their contracts, seriously damaging the interests of their Chinese partners. In some Sino-foreign joint ventures, for instance, the contract stated explicitly that the contractors for construction and other projects be picked through open bidding. Behind the back of their Chinese partners, however, the foreigners unilaterally entered into building contracts and furnishing contracts, lining their pockets illegally with kickbacks from contractors. Such illegal conduct constituted a serious violation of the contract and infringed upon the interests of the Chinese side. The latter, however, not only did not make representations to protect their terms in the contract but, on the contrary, recognize it as fait accompli and acquiesce in the former's serious breach of contract. Later on, when problems arose—foreign businessmen receiving illegal kickbacks from contractors or contractors doing shoddy work and using inferior materials, the Chinese side found itself in a passive position because there was no direct legal relationship between itself and the contractor and was unable to move quickly to solve the problems in contracting under the law. The upshot is that the Chinese

suffered heavy losses. Also, some enterprises have signed contracts with contractors that clearly laid down the project completion date. However, the contractors kept dragging their feet, in some cases delaying the project for 3 years and more, three times longer than the construction period specified in the contract. The Chinese, for their part, leaned over backwards to accommodate them. They did not take any effective actions, unwilling or lacking the courage to hold the contractors responsible for breach of contract. Furthermore, no rigorous inspection and management systems are in place to examine the equipment, machinery, and raw materials purchased by foreign businessmen on behalf of their Chinese partners. This gives the foreigners a chance to skimp materials and pass off the inferior for the good, causing their Chinese partners enormous material losses.

Sixth, foreign exchange regulations have been violated. An important goal of China's open policy is to attract a substantial amount of foreign capital and increase China's foreign exchange reserves and its ability to make payments. Accordingly, the agencies involved have made regulations that say explicitly that registered capital invested in China must be paid for in foreign exchange, deposited in a Chinese bank designated by China, and subject to the supervision and inspection of exchange control agencies. However, some of the economic contracts entered into by Xinjiang with foreigners had no regard for the nation's foreign exchange regulations. These contracts explicitly allow foreigners to pay for their registered capital in renminbi, effectively making it easier for them to buy and resell foreign exchange at a profit illegally by exploiting the difference between the list price of foreign exchange set by the state and the list price of foreign exchange on the market. Such speculation in foreign exchange is profitable for foreigners but causes losses for their Chinese partners. Moreover, in the guise of purchasing raw materials, parts, equipment, and machinery on behalf of their Chinese partners, some foreign firms directly divert funds that should be deposited in the Bank of China to other purposes. Others go so far as to speculate in foreign exchange at a profit. For their part, Chinese personnel either fail to see through such illegal activities or do nothing to stop them or acquiesce in them. All this has been highly damaging to Chinese interests.

Seventh, there is no legal management machinery. Relevant Chinese legislation dealing with foreigners explicitly requires Sino-foreign joint ventures and contractual joint ventures to set up a board of directors as the highest organ of power to provide leadership for and decide all important matters within the enterprise. Foreign economic contracts signed by Xinjiang also include similar provisions. In reality, however, some Sino-foreign joint ventures and contractual joint ventures in the region have not enforced this regulation in earnest. Some Sino-foreign joint ventures and contractual joint ventures have no board of directors even after they have been completed and are in business. In those circumstances, there is no alternative but to let the Chinese and foreign

partners temporarily put people in charge to handle and decide major matters. In some Sino-foreign joint ventures and contractual joint ventures, a board of directors has nominally been set up but it exists in form only; the enterprise's major decisions are still being made by the higher level or a handful of leaders in the department in charge. In yet other cases, Sino-foreign joint ventures and contractual joint ventures have inherited such shortcomings in the Chinese system as the lack of distinction between party and government and between government administration and enterprise management, gravely hampering the board of directors in functioning as the highest organ of power. This not only complicates decision-making in a Sino-foreign joint venture or contractual joint venture and its operations, but also gives rise to a string of legal problems and puts the Chinese in a reactive situation once a dispute occurs.

Eighth, the region is not good at using the law to solve economic disputes involving foreigners. Most economic contracts China has signed with foreign firms provide for arbitration, an important legal basis on which the Chinese side can go to court and protect its own legitimate interests under the law should a dispute occur. But the experience in recent years is that in some of the economic disputes in the region involving foreigners, many enterprise leaders or the departments in charge above dared not or were not willing to resort to the law and safeguard their own rights and interests. Some enterprise leaders were afraid of taking foreigners to court, oblivious of the fact that they and foreign businessmen were equal before the law. By refusing to honor their contracts, a number of foreigners have seriously hurt Chinese interests. We should have made representations, asked for arbitration, and demanded that the Chinese side be compensated. Yet some Chinese enterprise leaders, for fear of making the other guy lose face or concerned that "cooperative relations" might be affected, suggested that the matter be settled "privately." In the end, nothing was settled. In the process, what economic compensation we were entitled to was also given away by us magnanimously as a "favor." On the other hand, should the Chinese be the culpable party by breaching a contract, the foreigners would show no mercy at all. They would take us to court and make us pay damages. When that happened, some of our enterprise leaders were often scared to death and were forced to concede to the foreigners' numerous unreasonable demands and suffered heavy losses instead of doing their best to seek legal protection and fight back with resolve to minimize or make good their economic losses.

III

Objectively speaking, the problem with the drive to open Xinjiang to the outside world these days is a lack of experience. What is needed is practice and a process of familiarization. At the beginning, owing to a lack of experience, it is both inevitable and understandable that we would take a roundabout course and suffer some losses. A subjective analysis, however, would reveal the following factors:

First, the absence of a sense of legality. Opening up to the outside world is specialized work that is closely related to policies and involves Chinese and foreign laws in many ways. In the course of opening up to the outside world and in foreign economic dealings, therefore, it would be difficult to guarantee that problems would not arise if we do not have the protection of the law, which is precisely why foreigners set great store by the law. When they negotiate deals and sign contracts, many foreign businessmen can do without their assistants and other attendants but regard their lawyers and economists as indispensable. In contrast, some Chinese enterprise leaders and departments in charge involved frequently consider overseas traveling and negotiating deals with foreign firms a "perk," something reserved exclusively for themselves. Actually what they want is to take advantage of such trips to do some private sightseeing. In selecting whom to take along when they travel, therefore, these people never consider the needs of work but are solely concerned with personal convenience. The personal secretary comes first. Next, people to run errands. It never occurs to them to bring along a lawyer or workers who are truly competent. Or may be they simply do not want to have these people around. So we end up with people who do not know the law, for one thing, and have no professional knowledge, for another, and defer solely to the wishes of their bosses in making decisions. When we have people like these negotiate with foreigners, how can we ensure that problems would not arise in our work to open up the region and in our foreign economic dealings?

Second, administrative orders replacing the legal tool. The work of opening up Xinjiang should be based on legal protection. From negotiating with foreigners to signing contracts, complying with contracts, and resolving economic disputes, matters of law are involved. However, some of our enterprise leaders and people heading departments in charge are used to resolving foreign economic disputes with administrative orders and administrative methods. When a problem arises in negotiations, in the signing of a contract, or in the execution of a contract, they will intercede personally through personal relationships and use administrative orders and administrative means to solve the problem, instead of using the law as stipulated in the contract. For instance, some foreign businessmen have clearly breached their contracts and severely damaged Chinese interests. The Chinese side should demand that the foreigners carry out their obligations under the contract and compensate our losses and probably even take the foreigners to court to protect the interests of our side. For various reasons, however, some enterprise leaders and departments in charge dare not take the legal approach. Noting this weakness on our part, foreigners conclude that we can be pushed around and force us to make concession after concession, even threatening to "terminate cooperation" if we do not acquiesce in their serious breaches of contract. The upshot is that the foreigners both violate the contract and gain one advantage after another. Our side complies with the contract

faithfully only to suffer losses. We may take them to court, but since it is a case of "fait accompli," we will discover that there is not much we can do. Very often we are like the mute who has eaten the rhizome of Chinese goldthread. The stuff is bitter, but he cannot say so.

Third, we do not have the basic legal knowledge concerning foreign economic transactions. To meet the need of the open policy, we have in recent years formulated and promulgated a string of economic laws and regulations involving foreigners. They constitute a potent legal weapon to safeguard China's open policy and protect its legitimate rights and interests. Some of our enterprise leaders, foreign economic relations agencies, and cadres actually in the field do not know how to negotiate with foreign businessmen, sign foreign economic contracts, or use the legal weapon to handle disputes arising from economic contracts and protect China's legitimate rights and interests. Inevitably we are cheated, duped, and victimized. As a matter of fact, some problems in the past could have been avoided completely if only the personnel involved had a little legal knowledge involving foreigners. But since they were totally uninformed in this regard, China sustained unnecessary economic losses. In their own words, this is "paying school tuition" and "acknowledging somebody as one's teacher." In fact they have not yet learned from their mistakes and are only saying so to cover up their incompetence and ignorance.

Fourth, there is a fear that we would investigate and affix responsibility. Practice proves that if only we use the legal weapon properly and do things in accordance with the law, many problems that arise in our economic dealings with foreigners as we open up to the outside world can be resolved and the legitimate rights and interests of the Chinese side well protected. But some departments in charge and certain personnel involved in economic affairs, fearful that their derelict of duty in negotiations with foreigners and signing contracts would be exposed, try to accommodate, compromise with, and make concessions to, foreigners at every turn even as the latter breach contract and act illegally. They do not have the courage to argue their case strongly even though they are in the right, let alone sue the foreigners. And then there are some people who are even less inclined to confront the foreign businessman who breaches a contract or breaks the law since they have engaged in graft in their dealings with foreigners. On the contrary, they do their level best to cover up some illegal conduct on the part of foreigners, causing the Chinese side even heavier economic losses.

IV

Already problems in Xinjiang's drive to open up to the world so far have caused us tremendous economic masses. If we do not sit up and take note now and look for a solution in earnest, they are bound to seriously affect our work in the future. Accordingly, we must take these measures:

First, establish the concept of law and use the legal tool to protect the work of opening up. Without the protection of the law, Xinjiang would find it difficult to open up to the outside world smoothly and effectively. Thus all departments in Xinjiang that deal with foreign economic relations, all enterprise leaders, and all cadres involved in foreign economic work must firmly establish the concept of law, appreciate the importance and urgency of managing foreign economic relations with the law, manage the entire drive to open up to the outside world in accordance with the law, and fully overcome the shortcomings of relying solely on a person's words, on the wishes of senior officials, on administrative orders.

In the case of a major economic project, lawyers, foreign economic experts, and scholars as well as the departments concerned should be invited to take part in project research and negotiations and make comments. From the proposal of a foreign economic project through examination and approval, feasibility study, negotiation, signing and execution of a project, to the resolution of foreign economic disputes, everything must be in strict accordance with the law.

Second, step up foreign legal consulting and establish a permanent legal adviser system. To eliminate or reduce problems that may arise in opening up, certain foreign economic relations departments and enterprises in the region should seek advice from personnel well versed in law about the various problems that have arisen or may arise in foreign economic intercourse. A lawyer should be asked to examine all important foreign economic contracts. The appropriate personnel should be approached to review foreign economic disputes and come up with solutions. Prevent a problem if at all possible, instead of "closing the barn door after the horse has bolted," that is, after we have suffered unnecessary losses. Toward that end, all foreign economic departments and enterprises that deal with foreigners need to set up a permanent legal adviser system. Permanent legal advisers may be hired through legal organizations that deal with foreigners so as to provide legal services regularly and better protect the legitimate rights and interests of enterprises with foreign economic dealings.

Third, disseminate foreign legal knowledge and go all out to train economic cadres in foreign economic work. In view of the fact that the bulk of economic cadres in Xinjiang lack a knowledge of foreign economic laws, we need to disseminate such knowledge extensively to educate them in the ABC's of foreign economic laws, making sure they will not be taken in or deceived in dealing with foreigners. Accordingly, all relevant departments in charge in the autonomous region should draw up plans to train economic cadres who have to deal with foreigners by stages and in groups. Lawyers, experts, and other scholars inside and outside the region who are familiar with foreign economic laws should be hired as instructors. Through such training, economic cadres should not only acquire a basic knowledge in foreign economic laws, but also familiarize themselves with the basic principles of signing a contract with foreign businessmen on the

basis of equality and mutual benefit. If possible, experts and scholars should also be asked to write a practical, concise foreign economic legal handbook so that cadres in the field can turn to it for reference any time.

Fourth, increase research on foreign economic law and create a permanent information exchange system. Since Xinjiang is a latecomer to the drive to open up to the outside world and lacks experience in that area, it has encountered many problems in practice. To better adapt Xinjiang to the new situation it faces on the open policy front, we should further intensify our research on foreign economic laws. The departments concerned in the region should establish foreign economic departments, enterprises, and legal organizations that have foreign economic dealings and put together a regular or permanent network to exchange information promptly regarding the issues in foreign economic activities in light of Xinjiang's strategy of opening up to the outside world and provide the departments concerned with proposals and plans for their consideration and implementation. Legal issues encountered in foreign economic activities should be resolved as soon as possible and the opening up of Xinjiang should be put under powerful legal protection.

Fifth, eliminate administrative orders and operate in strict accordance with the law. Practice proves that many of the problems that have arisen in our region's foreign economic activities are inseparable from the administrative orders and illegal interference of the departments in charge. Because some departments in charge did not understand the objective conditions and took decisions solely on the basis of subjective wishes, many mistakes were made in some foreign economic projects. Afterward these people did everything to cover up their errors and refused to face the facts so that the problems were never really settled. Hence it is imperative that we completely do away with administrative orders and illegal outside interference in enterprises as far as foreign economic activities are concerned and let enterprises engage in foreign economic activities in a truly independent manner, making decisions and handling foreign economic issues in accordance with objective realities and economic laws. People who have made serious policy errors or illegally interfered in the foreign economic activities of enterprises, thereby causing heavy losses, should be held responsible for their mistakes. People who have caused enormous economic losses to the Chinese party to a project involving foreign businessmen through dereliction of duty, corruption, and bribe-taking should be punished in accordance with the law. Only thus can Xinjiang's drive to open up to the outside world proceed smoothly and healthily under the protection of the law.

TRANSPORTATION

Five New Air Routes To Open in Inner Mongolia

OW2103165091 Beijing XINHUA in English
1540 GMT 21 Mar 91

[Text] Hohhot, March 21 (XINHUA)—The Inner Mongolia Branch of the Air China Company will open five

new air routes to north China's Inner Mongolia Autonomous Region in the next few months.

The five routes will connect Hohhot, the capital of the region, with Ningbo in Zhejiang Province, Huangshan in Anhui Province, Yichang in Hubei Province, Shenyang in Liaoning Province and Luoyang in Henan Province. All but the Hohhot-Luoyang route will fly via Beijing.

A local official said that the new air routes will help the region's tourism, economic and technological exchanges and cooperation with foreign countries. The international tourist festival, which will be held in the region in August this year, will also benefit from the region's increased accessibility.

When the five new routes open, the total number of flights into the region will amount to 35.

Jiangsu Constructs Basic Transportation Facilities

*OW1903085891 Beijing XINHUA in English
0816 GMT 19 Mar 91*

[Text] Nanjing, March 19 (XINHUA)—Construction of basic facilities for transportation progressed rapidly in east China's Jiangsu Province during the Seventh Five-Year Plan Period (1986-90).

According to local officials, during the period the province built 7,308 km of highways, and now highways link 98.88 percent of the province's rural towns.

Jiangsu also organized manpower to dredge waterways, increasing the length of usable waterways to 3,600 km, up 51 percent over the figure at the end of the Sixth Five-Year Plan period (1980-85).

With the help of the state, the province also built and updated bus stations or ship berths in 11 cities under the jurisdiction of the provincial government and in 70 percent of the counties and cities of the province.

The province constructed and upgraded more than 30 ports, increasing its port handling capacity by 20 million tons.

The local ocean shipping businesses developed remarkably as a result of a leap in the export-oriented economy. Now the province has 31 ocean shipping cargo vessels, 19 more than the 1985 figure; it has also extended its international navigation routes to over 50 ports in other countries.

During the Seventh Five-Year Plan period, local aviation also made great strides. The province has opened 19 domestic air routes.

AGRICULTURE

Status, Problems in Farm Machinery Exports Viewed

*91CE0331A Beijing ZHONGGUO NONGJIHUA BAO
in Chinese 30 Jan 91 p 3*

[Unattributed article: "An Overview of Farm Machinery Exports and Current Problems in China"]

[Text] Over the past 10 years the farm machinery industry and product mix in China have grown increasingly export-oriented. China has constantly expanded its international market, and exports of agricultural machinery have grown year after year. We have made some fairly remarkable achievements. What follows is an overview of the current state and persisting problems in the farm machinery industry in China.

I. Regions Where We Export Farm Machinery

Chinese agricultural machinery is exported to nearly 100 different countries and regions in Asia, Africa, Latin America, North America, Europe, and Australia. Sixty percent of these exports go to Asia (Hong Kong, Macao, Southeast Asia, and South Asia); six percent each go to Europe, North America, and South America; one percent go to Australia; 2.5 percent go to Africa; and the rest is purchased with foreign exchange by overseas Chinese, who then donate the machinery to their home villages.

II. Volume of Farm Machinery Exports

A. Seven countries import \$1-3 million worth of Chinese agricultural machinery per year: West Germany, Cuba, Egypt, Chile, Albania, Australia, and Iran.

B. Five countries import \$3-5 million worth of Chinese agricultural machinery per year: Bangladesh, the United States, Canada, Malaysia, and Indonesia.

C. Two countries import \$5-10 million worth of Chinese agricultural machinery per year: Pakistan and Thailand.

D. Hong Kong imports more than \$10 million worth of Chinese agricultural machinery per year.

III. Pricing Farm Machinery Exports

Because farm machinery exports in China are not managed uniformly by any one sector and has no single pricing regulation, factories and companies compete freely to expand exports, and a bullish export situation has emerged. Foreign firms are reaping unfair profits and at the same time causing some competitive name-brand products to decline in prestige. In some countries and regions the traditional market for Chinese agricultural machinery is gradually disappearing.

Due to state subsidies, the price of Chinese-built agricultural machinery is very low. Cost-wise, foreign-made tractors are even more expensive than foreign cars. In China tractors are priced far lower than automobiles of

an equivalent status. For example, an intermediate-grade tractor would cost around 10,000 yuan, whereas an intermediate-grade car would cost 100,000 yuan or more. As a result, exports of Chinese automobiles are not nearly as competitive as exports of agricultural machinery. If we analyze the reasons for this, the major one is that Chinese farm machinery exports are subsidized by the state.

Not only are China's farm machine products extremely price-competitive, certain ones are also quite competitive in terms of output and quality. For example, China produces more small four-wheeled tractors than any other nation, and in 1984 our output of walking tillers surpassed that of Japan, at that time the world leader in tiller production.

There are several spheres of influence in the international marketplace. The market for large 60, 70, and 100 HP tractors is monopolized by the United States, England, Japan, Italy, and Germany, and China's own tractors in this category are basically still upgraded 1950's models. We have made no major structural breakthroughs, so our product is not competitive abroad. But in tractors of less than 50 HP, because production abroad is quite limited (except in Japan and Italy) and China produces high quality diesel engines, China can fill the gap in supply. Thus we export a considerable volume of these tractors and there are still prospects for growth. The greatest promise for future volume exports lies in 25 HP tractors. For one thing, China produces a large quantity and many different models of 25 HP tractors, including dryland models, paddy models, four-wheel-drive models, and so forth. Second, this variety of tractor is well-developed and designed to meet the needs of overseas users. Third, the quality of these tractors is quite consistent and they perform well after purchase. However, small four-wheeled tractors of less than 18 HP are used abroad mostly for cultivating household gardens, orchards, and vegetable plots, rather than for cultivating farmland. Users want their tractors to be multi-purpose, capable not only of drawing farm implements, but also of excavation, snow-plowing, and so forth. Moreover, they want the exterior of their tractors to be attractive. Because China's small four-wheeled tractors are designed in series, they are all driven by large-bore 195 or 295 diesel engines that produce significant vibration and require a large casing. Thus there is little market for them abroad. We need to follow the trend of small four-wheeled tractors produced overseas: that is, we should develop exquisite three-cylinder, 75 mm-bore, low-vibration, multipurpose tractors. Although China has a high output of walking tillers, there is a multitude of variety specifications for walking tillers on the international market, with the emphasis on diesel-powered tillers of 8 HP and below that can be used in small plots, vegetable gardens, and orchards—the kind of tiller that is really versatile. Most Chinese tillers, on the other hand, are 12 HP and rather staid.

IV. Problems in Farm Machinery Exports

Exports of farm machinery have grown dramatically in the past 10 years and have great potential. This, however, depends upon whether we overcome certain remaining problems in the farm machinery industry and export trade. First among these is the fact that agricultural machinery has not been tailored for export, and products still fail to reflect overseas advances. At the same time, the ratio of farm machine production to exports is too small in China. Chinese products represent a minuscule share of the international market: The total international trade in agricultural machinery amounts to \$10 billion per year, of which the Chinese share is only \$150 million, or 1.3 percent. From the perspective of the ratio of production to exports, Japan exports about 80,000 walking tillers per year, or 22 percent of her total output, whereas China exports 10,000 tillers per year, or only 1.8 percent of our total output. Agricultural machinery also lags as a percentage of domestic electromechanical exports: In 1989 farm machine exports accounted for 1.8 percent of China's total electromechanical exports. These facts are completely out of line with potential in the farm machinery industry. If we wish to make a breakthrough we must begin with the following four steps:

A. Revise the farm machinery export system. Because farm machinery enterprises are subjected to regional and hierarchical restrictions, agricultural machinery exports are not on an equal footing with their competition. There is a fairly serious degree of detachment between production and sales, as well as between domestic and foreign trade.

B. Readjust the product mix in farm machinery exports. In 1992 the European Common Market, the United States, Canada, and other Western nations will institute OECD standards, and any agricultural machinery that fails to conform to these standards will not be permitted in the Common Market and other nations. The situation demands that we rapidly revise our product mix in farm machinery exports and produce saleable products.

C. Reorder the farm machinery industry. Right now farm machinery enterprises need to move toward export-oriented development and abandon indiscriminate, short-sighted behavior.

D. Make farm machine exports more pluralistic and comprehensive. We need to consolidate existing, established export products and steadily expand our overseas markets. At the same time, we can experiment with joint venture plants, overseas assembly of Chinese-made parts, and other forms of enterprise. As for marketing, we can adopt more flexible methods to expand exports, such as selling on credit or allowing deferred payment.

Rural Mechanization Goals for Eighth Plan

91CE0322A Beijing ZHONGGUO NONGJIHUA BAO
in Chinese 5 Jan 91 p 3

[Unattributed article: "Material Extracted From the 1989 National Working Conference on Agricultural Mechanization: Main Points of the Rural Mechanization Program in the Eighth Five-Year Plan"]

[Text] Based on the need for growth in agricultural production and on available funding, energy, and technological resources, the preliminary plan calls for China to reach the following primary rural mechanization goals by 1995:

(1) The Level of Mechanization Mechanized Plowing: The area of tractor-plowed land should increase from 720 million mu in 1990 to 850 million mu in 1995, and the ratio of mechanized cultivation should rise from 48 percent to 57 percent.

Mechanized Sowing: The area of land sown through mechanized means should increase from 290 million mu in 1990 to 467 million mu in 1995, and the ratio of mechanized sowing should rise from 13 percent to 22 percent.

Mechanized Harvesting: The area of land harvested with machinery should increase from 140 million mu in 1990 to 280 million mu in 1995, and the ratio of mechanized harvesting should rise from 6.4 percent to 13 percent.

Mechanized Threshing: The amount of machine-threshed grain should increase from 300 million tons in 1990 to 350 million tons in 1995, and the ratio should rise from 70 percent to 76 percent of total grain output.

Mechanized Plant Protection: The area of land on which mechanical plant protection is used should increase from 136 million mu in 1990 to 220 million mu in 1995, and the ratio of mechanized plant protection should rise from 6.3 percent to 10.1 percent.

Electromechanical Irrigation: The area of land irrigated with electromechanical equipment should increase from 405 million mu in 1990 to 420 million mu in 1995, and the area of land drained with electromechanical equipment should increase from 61 million mu to 65 million mu.

Mixed Feed Processing: Our mixed feed processing capacity should increase from 56 million tons in 1990 to 70 million tons in 1995.

Cage-Reared Poultry: The number of cage-reared poultry should rise from 200 million in 1990 to 300 million in 1995.

Mechanized Wool Shearing: The number of sheep and goats sheared mechanically should increase from 3 million to 6 million.

Oxygen-Enhanced Intensive Freshwater Fish Farming: The area of oxygen-enhanced intensive freshwater fish

farming should expand from 3.4 million mu in 1990 to 6.5 million mu in 1995 and rise from 26 percent to 50 percent of all intensive fishponds.

(2) Quantities of Rural Power Consumption and Major Equipment

Total Rural Power Consumption: Total rural power consumption should rise from 295 million kW to 357 million kW.

Tractors: The total number of tractors in use should increase from 7.90 million to 9.65 million. The number of large and medium-sized tractors should expand from 900,000 to 1.06 million, and the number of small tractors in use should go from 7 million to 8 million.

Combines: The number of combines in use should increase from 40,000 to 70,000.

Sets of Tractor-Drawn Implements: Sets of tractor-drawn implements in use should increase from 7.5 million to 11.9 million. By 1995 there should be 2.3 million sets in use on large and medium-sized tractors, and 9.6 million sets in use on small tractors.

Plant Protection Machinery: Plant protection machinery in use should expand from 400,000 sets in 1990 to 500,000 sets in 1995.

Transport Machinery: The number of farm trucks should increase from 650,000 in 1990 to 1 million in 1995, agricultural transport vehicles should grow from 200,000 to 400,000 units, and motorized cargo ships should expand from 320,000 to 350,000.

Power in Irrigation: The amount of power employed in irrigation should rise from 68 million kW (92.48 million HP) in 1990 to 78 million kW (106 million HP) in 1995.

Machinery in Animal Husbandry: Large complexes of equipment for mixed feed processing should expand from 300-plus facilities to 450 facilities; forage grass harvesting machinery should increase from 20,000 units to 35,000 units; poultry cages should multiply from a capacity of 200 million birds to a capacity of 300 million birds; and the number of shearing machines should jump from 9,000 to 15,000 units.

Fishery Mechanization: Complexes of breeding, preservation, and processing equipment should increase from 120,000 to 330,000 facilities. We should replace 75,000 motorized fishing boats and replace or add 941 off-sea and distant-water fishing vessels.

During the Eighth Five-Year Plan we must focus on research and popularization of mechanized methods that increase unit yields; mechanization in cotton, rubber, and other cash crops production; and mechanized methods for treating alkaline and saline soil, southern red and yellow soil, the loess plateau, and deteriorating grass farms. We must continue to popularize the use of

new mechanical techniques for paddy cultivation, seedling propagation, and transplanting; intensive and small-quantity crop sowing; comprehensive methods of boosting yields in dryland farming; reduced tillage and zero tillage; mulching; energy-efficient and water-conserving irrigation, river and canal de-silting, and farmland water conservancy construction; rational uses of chemical fertilizers and agricultural pesticides; wheat, rice, and corn harvesting; sorghum handling; straw utilization; fodder grass and feed cultivation, harvesting, transportation, and storage; livestock and poultry breeding and processing; freshwater and pool aquatic breeding and fishery processing; and development, processing, drying, and multipurpose use of specialty products.

Farm Machinery Targets for Eighth Five-Year Plan

91CE0322B Beijing ZHONGGUO NONGJIHUA BAO
in Chinese 9 Jan 91 p 3

[Unattributed article: "Material Extracted From the 1989 National Working Conference on Agricultural Mechanization—Preliminary Ideas for Farm Machinery Development During the Eighth Five-Year Plan"]

[Text] Based on the requirements of the Eighth Five-Year Plan—which calls for expanding farm mechanization, coordinating industrial and communications sectors, developing exports to produce foreign exchange, and replacing machinery and tools—and drawing upon our practical experience in the agricultural machine industry, our preliminary plan calls for attaining the following primary targets by 1995:

1. Variety, Quality, and Sophistication: China needs to launch 650 new products, eliminate 450 outdated products, and improve 500 established products. By 1995 50 percent of our primary products should reach the level of technological sophistication evident in the products produced by industrially developed nations during the 1980's.

The new products we should launch during the Eighth Five-Year Plan should focus on comprehensive sets of technical equipment for 1) grain production; 2) seed processing; 3) livestock production and processing; 4) forage grass and feed production and processing; 5) energy- and water-conserving cropland irrigation; 6) agricultural and sideline product processing; and 7) the production of energy-saving internal combustion engines and the development and use of renewable rural energy resources.

In improving established products we should focus on energy and resource conservation. We should reduce fuel consumption three to five percent in internal combustion engines, increase production two to three percent per kilowatt-hour of electricity used in feed, agricultural, and sideline processing plants, improve water pump efficiency two to three percent, and lower raw material consumption three to five percent. By 1995 30 percent of our primary product line should consist of superior

products and 40 percent should consist of first-class products. For tractors, internal combustion engines, and combine harvesters, the average amount of time without a breakdown should increase 30-50 percent.

2. Gross Value of Industrial Output (GVIO): China's GVIO should rise from 21 billion yuan in 1990 to 28 billion yuan in 1995, an average increase of six percent per year.

3. Output of Primary Products: By 1995 we should be producing, annually, 100,000 large and medium-sized tractors; 1.10 million small tractors; 51.47 million kW (70 million HP) worth of internal combustion engines; 10,000 combine harvesters; 160,000 large and medium-sized tractor-drawn cultivation tools; 150,000 farm transport vehicles; 500,000 (sets) of livestock industry machinery (feeder machinery); 800,000 units (sets) of agricultural and sideline product processing machinery; 220,000 units of aquatic breeding, fishing, and preservation and processing equipment; and 5.5 billion yuan worth of tractor parts and accessories.

4. Foreign Exchange Earnings on Exports: China's foreign exchange earnings on exports should rise from \$120 million in 1990 to \$300 million in 1995, an average increase of 20 percent per year.

5. Enterprise Economic Returns: The profit to production output ratio should increase from eight percent in 1990 to 10 percent in 1995.

In the process of meeting our planned targets during the Eighth Five-Year Plan we must concentrate our efforts on the following four key points:

(A) We must fill the 30 most glaring gaps in our line of agricultural production equipment. These include the following: 25-40 HP paddy tractors; small, energy- and resource-efficient, high-speed one-cylinder diesel engines; 30-60 HP paddy combines; corn picker-combines; beet harvesters; high-speed automatic rice transplanters; germinated rice seed planters; new models of precision planter-mulchers; reduced-tillage implements; seeder/deep fertilizer combines; broad-range duster-sprayers; ditch and pond dredging machinery; field drainage-hole cutters; cotton pickers; complete small-seed processing equipment; small and medium-sized models of low-lift axial-flow pumps; comprehensive, single-team operated, mixed-feed processing facilities capable of producing 30,000-50,000 tons per year; grass-seed harvester-shellers; straw handling equipment; feed presses and pelletizers; complete husbandry facilities for valuable livestock; animal and plant protein extraction equipment; chicken manure utilization and handling equipment; complete equipment for initial processing on broken black teas; sets of equipment for intensive cottonseed processing; facilities for multipurpose processing of bamboo wood and cotton-stalk firewood; aquatic products processing facilities; fish-net weaving machinery; 1,000-1,500 HP variable-depth trawlers; and distant-water trawler-factory ships in the 1,000-3,000 ton class.

(B) We must increase our production capacity of 30 products that are in great demand: tractors imported from Deere, Feiyate [5481 0068 3673 Fiat?], Geerduoni [0766 1422 1122 1441], and Caterpillar, as well as the Model 180 tractor; small-bore, multi-cylinder diesel engines; high-speed diesel engines of the new 100 Series, the FL912/913 Series, the new 110 Series, the new 115 Series, the new 125 Series, the new 130 Series, and the CAT3300 Series; intermediate-speed diesel engines of the new 160/170 Series; new models of chain saws; plant-protection equipment; small gasoline engines; 1000-Series and E51 2/514-Series combines and small paddy combines; large rice transplanters; precision seed drills; small water pumps; comprehensive equipment for processing refined rice and for refining vegetable oil; tea picking machinery and tea-tree pruning machines; and intermediate and high-pressure hydraulic net haulers.

(C) We must increase the level of technical sophistication and add new varieties in 30 kinds of crucial, basic accessories and replacement parts: oil injection pumps, injectors, sandui oujian [0005 1417 0260 0115], cylinder jackets, piston rings, air valves, zhouwa [6519 3907], filters, carburetors, glow plugs, magnetoelectric motors, generators, electric starters, special-purpose combined instruments and sensors, sealed radiators, fan couplings, gear boxes, synchronizers, superchargers, clutches, front-wheel drive axles, grinders for flour-milling machinery, pellet forms for pelletized feed presses, harrow blades, tool bits, hammer parts, sieve screens, and blades for cotton-processing machinery.

Life expectancies for the above crucial, basic accessories and replacement parts are generally one-quarter to one-third lower in China than abroad, and their performance is also less than ideal. During the Eighth Five-Year Plan we must enhance scientific research in key areas, develop a new-model product mix, increase product life expectancy by more than 20 percent, improve our capacity to produce accessories and parts for new models, and meet the need for comprehensive equipment and good maintenance.

(D) We must expand product exports to increase foreign exchange earnings. In those product lines for which we have already established an export base—small and medium-sized tractors, diesel engines, internal combustion generating sets, combine harvesters, agricultural sidelines processing machinery, aquatic breeding equipment, fishing vessels, gear boxes, and harrow blades—in order to increase our export volume we must consolidate our hold on the Southeast Asian market and expand our share of the market in the Middle East, North and South America, Europe, and Africa. At the same time, we must work actively to create the conditions necessary to make inroads on the international market for tractor accessories and parts, large tractors, animal husbandry equipment, plant protection equipment, water pumps, and other products.

Expenditure of Rural Households in 1990

HK2703105891 Beijing CEI Database in English
27 Mar 91

[Text] Beijing (CEI)—Following is a list showing per capita cash expenditure of rural households in 1990, released by the CSICSC [China Statistics Information Consultancy Service Center]:

(unit: yuan)	1990	1989
Total expenditure	741.17	736.74
1. Expenditure of prod.	183.05	183.38
2. Living cost		
A. Expenditure of living	334.39	343.24
B. Expenditure of culture	40.35	35.26
3. Other nonproduction expenditure	47.59	45.08
4. Expenditure of savings and loans	102.11	99.48

1990 Cash Income of Rural Households

HK2703105691 Beijing CEI Database in English
27 Mar 91

[Text] Beijing (CEI)—Following is a list showing per capita cash income of rural households in 1990:

(unit: yuan)	1990	1989
Total	796.11	769.27
1. From collective production	58.61	54.83
2. From economic cooperative entity	2.4	3.4
3. From farm produce and by-products	408.49	392.61
4. Other nonproduction	77.34	75.58
5. From savings and loans	119.44	111.59

Economic Power of Rural Households Increases

OW0104093891 Beijing XINHUA in English
0842 GMT 1 Apr 91

[Text] Beijing, April 1 (XINHUA)—Rural Chinese households now wield more economic power and have more sources of income, ECONOMIC DAILY reported today.

According to a sample survey of 24,119 families in 29 provinces, autonomous regions and municipalities, the annual net income of 6.62 percent of the families at the end of 1990 was less than 200 yuan per person. However, the average net annual per capita income of 49.47 percent of the surveyed households exceeded 600 yuan.

In China, a family whose annual income is less than 200 yuan per person is regarded as living below the poverty line.

The proportion of families with an annual per capita income of less than 200 yuan in 1990 dropped by 4.82 percent over 1987. Meanwhile, the number of families with annual income between 200 yuan and 400 yuan per person decreased by 10.8 percent, and families with annual income of more than 600 yuan per person rose by 19.33 percent.

The survey, conducted by the Agricultural Bank of China, shows that 10.9 percent of rural households' income came from collective sources, 0.54 percent from cooperative sources and 89.07 percent from household production management.

The rise of rural industrial enterprises over the past five years has directly benefited rural families. Last year, the average income of families associated with these enterprises was 230 percent higher than in 1985.

Eighth Five-Year Plan Rural Reforms Outlined

91CE0354A Hong Kong TANGTAI
[CONTEMPORARY] in Chinese No 63, 9 Feb 91
pp 24-25

[Unattributed article: "Emphasis in Agriculture Remains on Public Ownership"]

[Text] A summary of agricultural reforms during the past 10 years shows two main ones: First is the return of production authority to the peasants. (In other words, the peasants themselves may decide what to grow, when to grow it, and how much to grow). Second is a gradual change in the excessively rigid public ownership system to give agriculture a private farming component. (On the surface, there is no change in land ownership, but the right to farm the land may be contracted to peasants for long periods, and the peasants may freely transfer this right to farm). We can regard these two measures as yardsticks for reform of agriculture during the Eighth Five-Year Plan.

The Eighth Five-Year Plan clearly espouses "adherence to the principal of a public ownership economy" as the guiding thought. In many policy-related areas, it emphasizes the need to develop and strengthen the collective economy component. Therefore, while espousing the "stabilization and perfection of the family output-related contract responsibility system," it also stresses a "sound two-tier operating system." This shows that even though the measures taken during the past 10 years have been effective, some people feel that this orientation of development "departs from the path of socialism." Thus, every effort will be made during the next Five-Year plan to reaffirm the socialist nature of China's agriculture.

I. Goals and Principles for Reform of the Rural Economic System During the Eighth Five-Year Plan

A. The goal of Eighth Five-Year Plan rural economic system reform is as follows: To explore rural economy plans and markets, regulating organically linked means

and methods for the preliminary establishment of a basic framework for a new rural commodity economic system.

1. Stabilization and perfection of various kinds of output-linked contract responsibility systems in which family farming is paramount.

2. Bringing order to commodity flow procedures, keeping commodity flow channels open, and reforming agricultural product prices and the procurement and marketing system in the preliminary establishment of an agricultural products marketing system, and a state macroeconomically controlled market price mechanism.

3. Realizing a transition from state use of administrative measures for macroeconomic regulation and control of the rural economy to the application of economic and legal measures for the building of a macroeconomic regulation and control system in which indirect regulation and control is paramount, and that applies state industrial policies and various economic levers.

4. Formation of a relatively self-sufficient agricultural investment system in which the state, local governments, collectives, and individual peasants are organically linked.

B. The following principles must be followed in carrying out plans for reform of the rural economic system during the Eighth Five-Year Plan:

Adherence to the principle of a publicly owned economy being paramount in a system that has many different economic components; adherence to the principle of deepening reform that is linked to the perfection of coordination; adherence to the principle of overall planning that takes all factors into account, decentralized decision making, and tailored guidance; adherence to the principle of coordinated reform of cities and the countryside; adherence to the principle of strengthening leadership of reform, and fully respecting the wishes of the peasants; and adherence to the principle of a planned commodity economy orientation, acting in accordance with the law of value.

II. Stabilization and Perfection of the Family Output-Related Contract Responsibility System, Amplifying the Two-Tier Operation System

Implementation of a two-tier operation system that combines individual family farming with centralized collective control as a means of perfecting and developing the rural collectively owned economic organization. It must be in keeping with the level of agricultural productivity at the present stage, be in keeping with the desires of the broad masses of peasants, and possess widespread applicability and powerful vitality. It must stabilize the family output-related responsibility system

as a basic farming method. In addition, the specific means and methods used to implement this system have to be improved and readjusted. Most important is the gradual strengthening of the collectively farmed economy, and the establishment of a socialized rural service system, the better to provide various services for family farming before, during and after production.

A. Stabilization and perfection of the collective land ownership system and the contract farming system.

1. Clarification of the collective land ownership system. In accordance with the desires of the peasants and insofar as the law allows, cooperative economic organizations are authorized to contract or lease land under collective peasant ownership within the community, and to supervise, control, and regulate as necessary this contracted and leased land.

2. Stronger peasant household contract farming rights. While stabilizing the prevailing contract farming pattern, peasant households' contract farming rights and legal benefit rights are to be regularized, standardized, and be fully guaranteed.

3. Establishment and perfection of a land rotation mechanism. Land use rights are to be permitted to circulate equitably among peasants. When a majority of peasants agree, places having requisite conditions may farm the land to gain appropriate economies of scale, thereby increasing the soil productivity rate. Tenders may be called for within fairly wide limits for the development of undeveloped mountains, undeveloped land, and undeveloped waters, contracting or leasing it for agriculture.

B. Perfection and development of a two-tier operation system, establishing a sound socialized rural services system. Improve centrally-run services for collective organizations. Promote the agricultural service system to fully develop the superiority of both household and collective operations. The state, local governments, collectives, and individuals must advance in tandem, with the formation of specialized service networks that include county and township science and technology, supply and marketing, and credit units that cooperate with each other and function in complementary ways. The scope of services is also to be expanded step by step. During the Eighth Five-Year Plan, emphasis is to be on good performance in providing services during production. "Two-way contracting," "group contracting," and a "dual guarantee system" are to be put into effect actively and steadfastly.

C. Gradual development and strengthening of the rural collective operations economy. Active founding of collective enterprises to increase collective accumulations. Perfect the labor accumulation work system, and the fixed asset depreciation system to form a new accumulations mechanism. The new collective accumulations and the former collective accumulations must be put under centralized control. Democratic control and mass supervision is to be instituted for collective funds. The

method of "township control over village-held funds" may be adopted. Every jurisdiction should actively operate rural cooperative fund associations for good control and good use of collective funds.

D. Reform of agricultural reclamation enterprises. During the Eighth Five-Year Plan, the financial contracting system is to continue in effect, and both the enterprise contract operation responsibility system and the farm (or factory) director and manager responsibility system are to be stabilized and perfected for the better building of a two-tier operating system of large and small farms in the development of a unified agriculture, industry, and business operating system.

III. Reform of the Agricultural Products Circulation System

A. Strengthen the multiple circulation system. During the Eighth Five-Year Plan period, state owned business, and supply and marketing cooperatives in the agricultural products procurement and marketing system will continue to play a role as the main channels for stabilizing markets and holding down prices. At the same time, vigorous efforts are to be devoted to development of peasant and various other form of commodity flow organizations, adhering to multi-channel operations and protecting the legitimate benefits of legal operators. State fixed contract procurement and procurement at negotiated prices of principal agricultural products is to form the basis for gradual removal of restraints on agricultural product prices and markets. At the end of the Eighth Five-Year Plan period, efforts should be made to rely mostly on market regulation of prices under state regulation and control for all agricultural products except grain and cotton.

B. Reform of the grain procurement and marketing system. Basic thinking is as follows: to reduce sales and procurement, to raise prices, and to remove restrictions. Gradually narrow the difference between procurement and marketing and prices by holding down sales. Specific ideas are as follows: Use of the present favorable opportunity to reduce over a period of time and in groups some industries' use of grain, and grain allocations for work, to gradually reduce the amount of contract procurement, raise contract procurement prices, and narrow the gap with market prices. For grain outside of the contract procurement system, restrictions on dealings are to be removed while adhering to state macroeconomic control, prices being freely set.

C. The procurement price of cotton is to be readjusted on the basis of an equitable price ratio between grain and cotton, while simultaneously enlarging the percentage of increased production that local governments apportion. The direct linking of cotton output and demand is to be maintained in all jurisdictions for direct exchange between agriculture and industry.

D. Abolition of contract procurement of sugar and oil crops in the removal of restrictions on dealings in sugar and edible oil. Continued removal of restrictions of the

hog procurement market. Greater control over market dealings in agricultural products for which restrictions have already been removed.

E. Establishment of central government and local government wholesale markets for main agricultural products such as grain, thereby increasing market control, bringing under state macroeconomic control market trading in grain and other main agricultural products not covered by contract procurement, thus standardizing the flow of agricultural products and reducing production and trading risks.

F. Readjustment of grain contract procurement base figures and allocation contract base figures in all provinces, municipalities, and autonomous regions. Adjustment downward of the amount of contract procurement in main commodity grain producing areas, following the principle of evening out burdens, suitably reducing the amount of parity price shipments from areas that ship grain while increasing the grain self-sufficiency rate of areas to which grain is shipped.

G. Establishment of an agricultural products reserve fund and regulation fund system. Funds are to be raised jointly by the central government, local governments, banks, and businesses for use primarily in evening out market supply and demand as well as large price fluctuations in prices of agricultural products such as grain, thereby solving "difficulty buying and difficulty selling" problems.

H. Summarization of experiences with milk, aquatic products, and agricultural reclamation should be used as a basis for moving ahead with the integration of production, supply, and marketing, and a combination of agricultural, industrial, and business dealings. The emphasis is to be on the organization of multiple forms of integrated production and marketing entities, using businesses as a turnkey to shape serialized entities for supply, production, processing, storage, shipment, and marketing. Special attention should be devoted to experiences that peasants have organized. In addition, pilot projects should be carefully run for reform of the integrated management system.

IV. Reform of the Agricultural Investment System

Agriculture is the foundation of the national economy. An important function of governments at all levels should be to insure that a greater portion of the investment in agriculture shows up in returns for society. To ensure normal development of agriculture, the state must intervene and effect needed standardization of agricultural investment.

A. Clarification of the demarcation line between government investment and business investment. Government investment emphasizes social returns. It is used largely on major projects to improve the environment, to develop the economy, and to regulate markets, as well as to play an exemplary and guiding role for rural collective organizations and individual peasants. Government

investment must increase gradually as agricultural production requires when government revenues increase. By the end of the Eighth Five-Year Plan, investment in the capital construction of agriculture within state plan as a percentage of total investment in capital construction is to increase from the 3.2 percent of 1989 to six percent. The percentage of funds spent for the support of agriculture within the fiscal budget is to increase from 5.94 percent to more than eight percent, and the percentage of agricultural loan funds in new national credit loans is to increase from 8.4 to more than 10 percent.

B. Reform of the bank agricultural investment management system. State investment in agriculture should be mostly in the form of uncompensated investment for a gradual narrowing of the amount of small business investment. During 1992 and 1993, the existing agricultural investment management system has to be reformed, within-budget agricultural capital construction investment use and management functions being brought within the jurisdiction of pertinent government functional units. In addition, management of state and local government funds used in the development of the rural economy should also be regulated as needed.

C. Improvement of rural collective and peasant household financial restraints. Collectives and peasant households are the main entities for productive investment in agriculture, and they are also the source of labor accumulations for various kinds of agricultural capital construction. In addition to the use of economic methods to guide their increased investment in agriculture, improvement of financial restraints is needed. Appropriate percentages must be set for the accumulation funds (township and town enterprise profits) of rural collective economy organizations (including township and town enterprises), which must be used for investment in agriculture and for the formation of a system.

D. The various regulations for increasing agricultural investment must be formalized in law as quickly as possible. Drafting work on the "Agricultural Investment Law" must be completed as quickly as possible, and the law promulgated for application.

V. Rural Financial System Reform

Reform of the rural financial system during the Eighth Five-Year Plan must be conducted in close conjunction with state rural industrial policies. Following the Eighth Five-Year Plan rural financial system reforms, the rural financial system should be as follows: A multi-level pattern in which rural banks play the leading role and credit cooperatives are mainstays, rural collective cooperative fund organizations are suitably developed, and individual loans play a supplementary role.

A. Reform of the rural banking system. In its role as the state rural financial organization, the Bank of Agriculture plays a role in funding and administering rural funds. It fully carries out functions on behalf of "national banks," implementing preferential agricultural credit policies as state industrial policies require. It

operates on a "two track system." On one track, the state treasury permits and guarantees the Bank of Agriculture to engage in a certain amount of credit operations of a rural policy nature. On the other track is management of agricultural credit as businesslike operations require.

B. Rural credit cooperative reform. Credit cooperative reform has two main aspects. The first is the need for active reform of the relationship between rural credit cooperatives and national banks. Depending on the individual characteristics of rural credit cooperatives and their social requirements, rural credit cooperatives throughout the country should be brought under direct administration of the central bank, the specific time and the steps to be taken in doing this to be set as different circumstances require. During the Eighth Five-Year Plan, pilot projects may be run in different types of areas. Second, reform of the internal mechanism of credit cooperatives is a main problem in credit cooperative system reform. Rural credit cooperatives are cooperative economy organizations under rural collective ownership. Credit cooperative reform entails the rationalization of system relationships, the better to make use of the functions of credit cooperatives. The unlinking of credit cooperatives from the Bank of Agriculture during the Eighth Five-Year Plan may be used to revive the "three characteristics."

C. Establishment of a sound rural funds market. The state should guide and support cooperative funds of rural collective economic organizations that derive from rural financial system reform, and the cooperative funds of finance capital organizations and civil government departments within township and town enterprise blocs.

VI. Township and Town Enterprise System Reform

A. Improve development of the township and town enterprise system. The exploration of ways and means of separating government administration and enterprise management at the township and village levels should continue to be explored during the Eighth Five-Year Plan for further strengthening of the operating autonomy of enterprises, thereby enabling the systematization of relationships of enterprises with township and village organizations. During the Eighth Five-Year Plan, enterprises at the township and village levels should enable ownership structures to develop in the direction of stock share cooperativization. Results have been very good from many years of trial operation of the stock share system in township and town enterprises. It should be actively promoted and perfected.

Continued perfection of the contract operation responsibility system and other forms of economic responsibility systems in the improvement of the enterprise operation system. Enterprises in which management is poor may use various methods to sell, transfer, and merge. There should be active promotion of all forms of lateral links and the development of entrepreneurial groups to optimize the organizational structure of township and town enterprises.

Good performance of associated reform of the internal management system, introducing scientific management systems and methods to advance the modernization of enterprise management.

B. Fostering and building of essential elements of production markets to improve the operating environment for township and town enterprises. Raw and processed materials, energy, and transportation needed by enterprises that earn foreign exchange from exports, and for enterprises that manufacture name brand, specialty, and premium products should be brought within state plan. In addition, financial, materials, human talent, and technical markets should be gradually established.

February Exports of Cereals, Oils, Food

HK2903100091 Beijing CEI Database in English
29 Mar 91

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

Name	Unit	Feb. 1991	Feb. 1990
Pig	head	217,086	173,925
Poultry	in 10,000	324	275
Beef	ton	9,294	3,439
Pork	ton	11,508	5,818
Chicken	ton	441	2,114
Rabbit	ton	715	535
Egg	in 1,000	30,298	15,314
Aquatic Products	ton	20,192	31,341
Fish	ton	1,993	4,415
Prawn	ton	2,356	7,874
Cereals	ton	684,668	335,716
Rice	ton	67,511	4,066
Soybean	ton	85,503	89,766
Pulses	ton	31,252	31,474
Maize	ton	473,369	179,138
Vegetables	ton	61,340	48,832
Fruit	ton	15,049	9,402
Orange	ton	12,256	1,886
Apple	ton	498	3,325
Sugar	ton	3,008	52,237
Canned food	ton	38,536	32,171
Pork	ton	3,173	2,359
Vegetables	ton	24,195	19,789
Fruit	ton	8,437	8,333
Others	ton	2,731	1,690
Vegetable oil	ton	2,584	5,190
Peanut	ton	44,278	26,235

Beijing Overfulfills Grain Purchase Task

SK2703073591 Beijing BEIJING RIBAO in Chinese
4 Mar 91 p 1

[Summary] As of 24 January, Beijing Municipality purchased 857 million kg of grain at parity and negotiated prices, overfulfilling the state-assigned task of purchasing 165 million kg of grain.

Fujian Livestock Industry Goals

91P30120C Beijing ZIRAN ZIYUAN [NATURAL RESOURCES] in Chinese No 1, Jan 91 p 11

[Summary] By 1995 Fujian Province plans to produce 1,300,000 tons of livestock products; the estimated gross output of meat is 800,000 tons, eggs 320,000 tons, and milk 100,000 tons. The output value of the livestock industry should reach 2.6 billion yuan, and account for 18.5 percent of the gross value of agricultural output. By 1995 the livestock industry should earn \$60 million in foreign exchange.

Hebei Cuts Supply of Low-Priced Grain, Edible Oil

HK2703064991 Wuhan Hubei Provincial Service
in Mandarin 1000 GMT 23 Mar 91

[Text] This morning the provincial government held a press briefing in the [Hongshan] Guest House on the provincial conference on reducing sales of low-priced grain and edible oil. A circular by the provincial people's government was read out on reducing sales of low-priced grain and edible oil.

According to the circular, the provincial government decided after discussion that effective 1 April, sales of low-priced grain and edible oil be partially reduced across the province. The per capita monthly grain ration of 13.5 kg or below for nonagricultural population in cities and towns; grain rations for army units, college, specialized middle school, and middle school students, and retired cadres; and popular low-priced light breakfast will be supplied as usual. Additional supply of edible oil for residents and Islamites on the Spring Festival and National Day will be continued as stipulated. The fixed grain rations for disaster areas, areas where the land has been requisitioned for building reservoirs, cotton growers, and poor and mountain areas will be supplied as required by existing policies.

Grain used for the following purposes will be supplied at negotiated or market prices rather than at the price fixed by the state beginning 1 April:

1. Various kinds of subsidized grain other than basic grain ration; grain for the catering trade other than for popular low-priced light breakfast, for guest houses, hotels, and restaurants, for nonstaple food, for making wine, vinegar, and for fodder.

2. Grain ration for vegetable growers in medium-sized and small cities, county seats, or administrative divisions below county-seat level; agricultural forage grain; and seed grain.

3. Scrap the supply of low-priced rape oil for industrial enterprises and commercial businesses and for residents in cities and towns, who were provided as subsidy with 0.25 kg of low-priced rape oil per month.

4. According to the instructions by the State Council, the retrenchment measures taken by various localities before 1 April will remain as they are, though a greater amount of supply of low-priced grain and edible oil was cut down and more people were affected.

Vice Governor Han Hongshu gave a speech on reducing the supply of low-priced grain and rape oil. He said: Reducing the supply of low-priced grain and rape oil is of great significance. This decision will help: Strike a balance between income and expenditure concerning low-priced grain and rape oil, stabilize the burden on the peasants, ease the state's financial burden, promote planned consumption of grain, and economize on grain.

He made an analysis of how the decision would affect enterprises and people's livelihood, saying: Partially reducing the supply of low-priced grain and rape oil is in fact designed to share the burden between the state, enterprises, and institutions. It will certainly affect some enterprises and the people's life, but the impact is limited.

He stressed that after partially reducing the supply of low-priced grain and edible oil, the usual measures for supplying grain and edible oil would not change. The basic ration would not change. The grain coupon would remain valid. The surplus target on the grain certificate would not change. At present we can fully meet the demand because we have abundant supply of grain and edible oil in stock. The people should not have any misgivings about this.

He called on all levels of party committees and governments to strengthen leadership and publicize the policy properly. Departments in charge of industry and commerce and public security should improve their control of grain market and check the practice of buying and selling grain coupons and exchanging grain coupons for other things. Grain departments should increase variety, improve quality, offer convenience to the masses, and ensure ample supply, thus guaranteeing the successful implementation of the policy on partially reducing the supply of low-priced grain and edible oil.

Jilin Issues IOU's for Grain

91P30100E Beijing NONGMIN RIBAO in Chinese
23 Jan 91 p 1

[Summary] In 1990 Jilin Province increased grain output by over 10 billion jin. However, at present

farmers are not receiving cash for grain sales, and IOU's worth several hundred million yuan have been issued.

Fungal Wheat Diseases in Zhejiang

91CE0269 Beijing ZHIWU BAOHU [PLANT PROTECTION] in Chinese No 6, 8 Dec 90 pp 17-19

[Article by Chen Xi (7115 3356), Department of Plant Protection, Zhejiang Agricultural University; and Chen Enmao (7115 1869 5399), Zhuji Promotion Center of Agricultural Technology, Zhejiang Province]

[Abstract] Since 1982, the authors were assigned to investigate and identify diseases of wheat crops in Zhejiang; 13 fungal diseases not previously reported in the province were discovered. The article describes the symptoms and pathogens.

Five fungal diseases were first reported in China: wheat glume spot disease with the pathogen identified as *Curvularia geniculat* (Tracey et Earle) Boedijn.; wheat stem

base rot disease with the pathogen identified as *Leptosphaeria herpotrichoides* Not.; wheat purple spot disease with the pathogen identified as *Ascochyta tritici* Hori et Enjuji; wheat leaf wilting disease with the pathogen identified as *Pleospora herbarum* (Pers. et Fr.) Rabenh.; and wheat brown glume disease with the pathogen identified as *Alternaria tenuis* Nees. Eight other fungal diseases were first reported in Zhejiang Province: wheat red snow rot disease with the pathogen identified as *Gerlachia nivalis* (Ces ex Sacc.) W. Gams and E. Mull.; wheat anthrax disease with the pathogen identified as *Colletotrichum graminicolum* (Ces.) Wils.; wheat gray mildew disease with the pathogen identified as *Botrytis cinerea* Pers. ex Fr.; wheat sickle bacteria root rot disease with the main pathogen identified as *Fusarium culmorum* Sacc. and secondarily, *F. avenaceum* Sacc.; wheat ocrea rot disease with the pathogen identified as *Leptosphaeria tritici* (Gar.) Pass.; wheat black mildew disease with the pathogen identified as *Cladosporium herbarum* (Pers.) Lk. ex Fr.; wheat leaf mildew disease with the pathogen identified as *Nigrospora sphaerica* (Sacc.) Mason.; and wheat dry stem disease with the pathogen identified as *Gibellina cerealis* Pass.

Remedies Proposed for 'Severe' Yunnan Drug Abuse

91WD0456A Shanghai SHEHUI [SOCIETY]
in Chinese No 72, 20 Jan 91 pp 14-16

[Article by Fan Renben (5400 0088 2609): "Disastrously Incurable Drug Addiction"]

[Text] There is a county in Yunnan Province with a population of over 80,000 people and a nationality breakdown of 45 percent Dai, 39 percent Han, and 13 percent Jingpo. It is linked to Burma by common mountains, rivers, and land routes, and the people living on the frontiers are accustomed to intermarriage. Its economy has developed rapidly since the Third Plenary Session of the 11th CPC Central Committee. In 1989, it reaped a bumper grain harvest for the 10th year in a row, realizing 39.76 million yuan in revenue and a peasant net income of 789 yuan per capita. According to entry and exit registrations by border inspection stations, it has had about 2 million border crossings a year in the last two years.

While it is certainly a beautiful, richly endowed, cherished, and treasured part of southwestern China, it is known worldwide as a pestilence of drug addiction, which has cast a shadow over it.

I. The "Five Mosts" and "Five Destructive Consequences"

Drug addiction in this region is extremely severe and distressing. Statistics from the county drug prevention office for the end of 1989 show that 2,288 people, or 2.85 of its population, are registered drug addicts, with 606 people, or 26.4 percent of all addicts, using opium; 1,682 people, or 73.6 percent of all addicts, using heroin; 2,166 people, or 94.7 percent of all addicts, being male; and 122 people, or 5.3 percent of all addicts being female.

The severity of its drug addiction can be seen in its following "five mosts":

1. The most stockaded villages with drug addicts: Almost none of its 202 natural stockaded villages are truly addict-free. The historical causes of this were poor sanitary conditions and a shortage of doctors and medicine in border villages before liberation in particular, which caused some villagers to become addicted through taking opium as medicine for dysentery. In recent years, some villages are still being called addict-free even though they have discovered a few young heroin users. This is due to village customs and nationality treaty limitations, a lack of local awareness, and the fact that these addicts have not become users again after stopping for six months to a year. There are actually only 11 such "addict-free" villages throughout the county, while all of the other 191, or 94.6 percent of all natural stockaded villages, have addicts.

2. The largest minority nationality addicts: Minority nationalities account for 94 percent of all addicts throughout the county. Approximately 4-5 percent of

minority nationalities are addicts, while only 0.44 percent of the Han nationality are addicted. About 6 percent of some minority nationalities in a few prefectures are addicts.

3. The most young heroin users and intravenous users: Of the 1,682 heroin users throughout the county, 16 are under 17 years of age, with the youngest being 11, and 1,156 are between 18 and 35, with 69.6 percent of all heroin users being under 35. The average age of the 85 addicts in drug rehabilitation clinics throughout the county is 25. About 10 percent of young addicts both snort and inject heroin.

4. The most recidivists: While the 12 county, township, and village drug clinics handled 3,510 rehabilitations from 1985 to 1987, the 83 drug rehabilitation classes held throughout the county from 1988 to July 1989 handled 2,281 rehabilitations, for a total of 5,791. This means that based on the current number of addicts, each addict was rehabilitated 2.5 times. While it seems reasonable that most addicts should have stopped, most addicts are actually still users despite repeated rehabilitations, with some having been rehabilitated as many as 10 times. There are 383 addicts, or 16.74 percent of those throughout the county, who have successfully stopped using for six months, while the recidivist rate is higher than 83 percent.

5. The most drug-related deaths: The county has had 170 drug-related deaths since 1984, of whom 29 overdosed by snorting, 57 overdosed intravenously, 53 died from drug-related emaciation, and 31 were killed in drug-related violence. There has been a yearly increase in the number of drug-related deaths, with one in 1985, two in 1986, six in 1987, 17 in 1988, and 68 in 1989. One township had 12 drug-related deaths in 1989 and two in January 1990, with the youngest being only 15 years old.

This severe drug addiction is not only harmful to our national image, our national dignity, and the prestige of our socialist system, but is also shockingly destructive to society, families, and drug addicts themselves. Its "five destructive consequences" are as follows:

1. It is a great waste of money for the nation and the families involved. Since 1982, 858,000 yuan has been appropriated on the provincial, autonomous prefectural, and county levels for drug rehabilitation clinics (recovery centers) costs alone, and 575 million jin of grain has been allocated twice on the county level. The investment cost will be even greater if we build reeducation-through-labor drug rehabilitation clinics. It is even harder to calculate the family wealth that is wasted by drug addicts. Considering that an addict uses a gram of heroin a day at 25 yuan a gram, the 1,682 heroin addicts throughout this county waste 15.14 million yuan a year. Fang Zhiming [2455 1807 2494], an addict in an autonomous prefectural drug rehabilitation clinic, wasted over 100,000 yuan on heroin in just over two years, impoverishing a perfectly good and prosperous family. Shuai E

[1596 0192], an addict now in a county drug rehabilitation clinic, has wasted over 10,000 yuan on heroin since 1987, in addition to stealing and selling three of his family's bicycles and over 3,000 jin of rice, and did not own even a change of clothes when admitted to the clinic. Some village addicts live in unspeakable poverty, without even clothing to cover their bodies or shelter to keep out the rain. For instance, Yu Kuang [1342 0400], a 32-year-old addict with a wife and four children, lives in an unwallled thatched shack, in which the whole family's most valuable property is one earthen jar and one small galvanized pail. Yu Li [1342 6849], a 36-year-old addict with a 70-plus-year-old mother and an 8-year-old son, lives such an impoverished life that his whole family had less than 5 yuan to spend on the 1990 Spring Festival.

2. It undermines public order and the social atmosphere. While most addicts waste money that they have earned themselves when they begin to use, they steal their family's property or steal from their neighbors when they are no longer able to make ends meet, and some even loot and kill, which destroys social tranquility, prevents their neighbors from living in peace and contentment, and undermines family harmony. In the first half of 1988, 14 of the 15 criminal cases that occurred in this county involved addicts, and 71, or 52.5 percent of the 135 violators of public order, were addicts. Addicts accounted for 61, or 35 percent of the 174 thieves who were caught throughout the county in 1989. Mai Hansai [7796 0815 6357], a 23-year-old addict with no money to buy heroin, saw Liu Zhi [0491 1807], the village schoolteacher, riding by on a bicycle, clubbed him to death out of the evil of his heart, and stole 10 yuan and the bicycle, for which he has been sentenced to death (and executed). While certain minority nationalities used to have such a good social atmosphere that peasants did not even lock their doors when they went to work, they all now have to leave someone on guard at home when they go to work in the fields. Heroin also casts a shadow over many families by breaking up or scattering them. Divorce has clearly increased in this county in recent years, with 26 of the 32 wives in one township who sued for divorce in 1989 because their husbands were addicts, already getting their divorces.

3. It saps industrial and agricultural manpower. In this county, 1,713, or 74.7 percent of the 2,288 addicts, are between the ages of 18 and 50. While people in this age category are the major frontline producers in factories, state-owned farms, and villages, their drug addiction leaves them idling about all day, doing no decent work, and basically in no mood for productive labor. Long-term addicts are good-for-nothings who can neither lift or carry. In a certain township, 26 of the 54 adult males in Hudao Village, which has 178 people in 34 families, are addicts. While this village used to obtain its wealth from rice and sugarcane cultivation, had an income of more than 1,000 yuan per capita, was a model of industriousness, and had been cited by the county, its addict population has increased steadily and its agricultural output has dropped year after year since 1987 when

its people began to use drugs. By 1989, the village was able to cultivate only 50 mu of sugarcane, or 27 percent of what it had in 1987, and its income had dropped to 400 yuan per capita. Many addicts are unable to work, can only sit by and watch their fields go to weed, and in some cases even lease for cultivation by others the fields that are their responsibility.

4. It affects military manpower and the building of the militia ranks. Drug use has a corrosive impact on the healthy growth of the younger generation. The army has recruited very few draft-age youths from this county for military service in recent years, and has had trouble maintaining and expanding the militia in some villages. Although a certain economically developed region had planned to organize a militia platoon in 1989 to help resolve economic development and public order problems, 76 of the 81 draft-age (21 to 35) youths were found to be addicts, so it was finally forced to choose one light user and the five nonusers to form only a six-man militia squad. Conscription has become very difficult in some minority nationality villages. In a certain village of 112 people in 33 families, 32 of the 38 male workers are addicts. While every family that produced a male child used to be happy because he was a potential soldier, every family that produces a male child now worries that he will become another "No 4" (heroin) user. Some township enterprise cadres who have come south have left their children to be raised by relatives or friends in other parts of the country, to keep them from contracting the bad habit of drug use;

5. It leads to AIDS virus infections. This county accounts for 128 of the 146 AIDS cases that China acknowledged to the outside world in January 1989. Spot testing by the Yunnan and Central Government health departments have gradually determined and acknowledged that 104, or 57.1 percent of the 182 intravenous heroin users in this county, carry the AIDS virus. Health departments have determined that 12 of the 14 addicts, who have histories of intravenous heroin usage and average 27 years of age, in 12 of the 14 families of Jingpo nationality peasants in a certain village, carry the AIDS virus. It has been proven that drug use, particularly intravenous drug use, is a major cause of the AIDS virus.

II. Determination and Countermeasures Taken

With the leadership of provincial, autonomous prefectural, and county party committees and governments and the guidance of professionals in departments such as public security, civil administration, and health, officials in this county have carried out drug prevention with great determination, emphasized it early on, done much hard and painstaking work for many years, and achieved great successes by taking the following countermeasures:

1. They have recognized the grimness of drug prevention, by taking resolute steps to crack down on drug dealers. They have regarded drug offenses as the greatest factor involved in seriously undermining public order, affecting border stability, and hindering nationalities

prosperity, and made them a key part of their party and government agendas. As foreign and domestic drug dealers had ganged up to take advantage of this county's particular geographic circumstances, by forming covert criminal gangs to deal drugs and, based on directives from the Yunnan Public Security Department on strengthening drug suppression, the county public security bureau set up a drug-suppression team in 1982 to improve its leadership of and cooperation with public security officers and border police. From 1983 to the end of 1989, this county tracked down 654 cases of drug dealing, arrested 1,137 drug dealers, and seized 14,509.1 grams of heroin, 6,790 grams of morphine(?), 26,114 liangs of opium, and large amounts of drug money, with 63.4 percent of the arrested drug dealers being from this county or foreigners. This stronger drug suppression and firm crackdown on drug dealers have vigorously expedited their drug prevention work.

2. They have improved their drug prevention leadership, by establishing and strengthening drug rehabilitation (recovery) organs at all levels. In 1989, after summing up past drug prevention experiences, leading comrades from the county party committee, government, people's congress, and concerned departments and units set up a drug prevention group and office. Since it was set up, this drug prevention office has gone to all villages throughout the county, counted and registered one by one the black (opium) and white (heroin) users, kept abreast of drug prevention and recidivism, and provided the leadership with reliable policymaking statistics. In the last two years active it took steps to set up county, township (town), village, and village committee drug rehabilitation clinics, and conducted a drug prevention campaign.

3. They have assigned tasks by setting responsibilities at all levels and emphasizing implementation. In light of realities, such as the many addicts throughout the county and their wide distribution, poor character, and work difficulties, as well as the time factor, they took the steps of assigning tasks by administrative division, assigning a part to each unit, and assigning responsibilities throughout the system, in order to implement drug prevention work level by level all the way down to the grass-roots units. In 1989, based on the drug prevention tasks assigned to autonomous prefectures to be completed by the end of April 1990, the county made heroin prevention its work priority, assigning tasks to all major units subordinate to townships, towns, and the county. All units went into action after tasks were assigned, the county drug prevention office improved its guidance and coordination, and the tasks were completed quickly and well, which turned the former situation of "county leaders racking their brains, county finance spending money, and county public security working alone to ferret out addicts," to the current one in which "everyone racks their brains to accomplish the objective in diverse ways, the tasks are shared by the state and each individual, government and village supervision is coordinated, and addicts cannot escape detection."

4. They have emphasized close coordination to enhance drug prevention. They have emphasized coordination among departments, units, and all links as an important aspect of improving drug prevention work. In order to raise drug prevention awareness among all the people, county party committee departments, such as propaganda, legislative, and education have gone deep into the realities of life, by producing and compiling many typical drug prevention cases and teaching materials. In order to enhance control and indoctrination of addicts, all drug rehabilitation clinics have focused on the various age, cultural, occupational, and physical differences among addicts, by doing a good job of indoctrinating addicts in regulations, discipline, and withdrawal methods upon entrance to treatment, while helping former work units to consolidate results after addicts leave drug rehabilitation clinics. They have taken a three-pronged approach of forced withdrawal, drug treatment, and ideological indoctrination to force withdrawal by certain weak-willed addicts who have repeatedly tried but failed to quit.

5. They have allocated money and grain, in order to actively provide drug prevention needs. In the midst of glaring economic development needs and financial guarantee conflicts, they have allocated special funds to build drug rehabilitation clinics, pay the wages of temporary workers and contracted people's police, and provide food allowances to impoverished addicts, allocated grain to help feed addicts, and provided drug rehabilitation clinics with more educational, entertainment, recreational, and medical equipment. In addition to having invested 250,000 yuan in a treatment facility for the county recovery center, they have appropriated 103,000 yuan five times and allocated 57,500 jin of grain twice for drug rehabilitation since 1985.

While drug prevention remains a "serious and long-standing" problem throughout the world, it was solved in China after the founding of the PRC. Although its leftover dregs are now spreading in China again, we can gradually solve any problem, as long as we make great efforts to deal with it conscientiously.

Overview of Students Studying Abroad

91CM0171A Hong Kong MING PAO YUE KAN
[MING PAO MONTHLY] in Chinese No 300, Dec 90
pp 26-29

[Article by Jung Wan-ch'eng (1369 5502 1004): "Will Beijingers Control Hong Kong? Plan for Mainland China's Overseas Students to Work in Hong Kong"]

[Excerpt] [passage omitted] The following is a general overview of mainland Chinese students in major industrialized countries.

I. France

Most of the mainland Chinese students in France are on government scholarships or are exchange students, and

they mainly study science. Because the central governments of both countries are responsible for assigning students to universities, the assignment decisions for students are managed jointly by the two countries' education ministries. The student exchange program between the two countries began with the signing of the "Cultural and Scientific Cooperation Agreement" in 1979. By 1984 there were over 150 Chinese doctoral students studying in France. In 1987 this group had grown to 1,500 students.¹ In 1989 there were 3,400 students.²

II. England

Mainland China sends 800 students and scholars to study in England every year. In addition, about 600 students pay their own way, bringing the total to about 1,400.³ This number will remain basically the same until 1996, because the students in England are all sent there under the "Educational and Cultural Exchange Plan" signed by the two governments in 1979. In addition, foreign students studying in England usually receive scholarships, so the scale of the increase in the number of students and the subjects they study is relatively regular compared with other countries. Since 1985, 70 percent of Chinese students have majored in science and technology, 20 percent in the social sciences, and 10 percent in humanities.⁴

Between 1973 and 1988, China sent 4,838 students and scholars to study in England.

III. West Germany

Engineering is a popular field of study for Chinese students in Germany. Mainland Chinese students go to Germany under the auspices of a 1977 Sino-German educational exchange agreement. By 1987, over 2,000 mainland Chinese students were studying in West Germany. Most of them received German scholarships, and the rest—about 32 percent—received money from the Chinese government.

IV. United States

Mainland students study in the United States under the auspices of the 1979 "Science and Technology Cooperation Agreement," the 1978 "Memorandum on Exchange Students and Scholars," and the 1985 "Cultural Exchange Agreement."

According to a report in the 18 November 1989 edition of RENMIN RIBAO, by 1989 29,040 students had gone to the United States through either public or private funding. If visiting scholars are included, the total was 43,000. In 1989 alone, the number increased by 8,000 over the previous year. Students from mainland China make up the largest group of foreign students in the United States.

As far as fields of study are concerned, most mainland students who come to the United States elect to study science and engineering, because a great many of these

fields get financial support for scientific research from the U.S. government, universities, and large institutions.

V. Canada

Mainland Chinese students go to Canada under the auspices of the "Memorandum of Educational Cooperation" signed by the two countries in 1979. Since 1978, the number of these students has increased from 35 to over 10,000. Since the 4 June incident, 8,200 people have been allowed to remain in Canada for "humanitarian reasons."

VI. Japan

Although China and Japan reestablished diplomatic relations in 1972, large-scale student exchanges did not start until the "Technical Exchange Memorandum" was signed in 1978. The assignment of mainland Chinese students to schools in Japan is overseen by Japan's Ministry of Culture and China's State Education Commission. According to the State Education Commission's 1984 annual report, 1,972 people went to Japan to study between 1978 and 1983. Most of these were publicly funded; only later did it become popular for privately supported students to go to Japan to learn Japanese. By 1989 the number of students had only increased to 500.⁵ Most publicly supported students study in the scientific or technological fields, followed by medicine, agricultural science, fishing industry, and linguistics, etc.

Recently the Japanese government has planned to increase the number of foreign students by allowing more students from neighboring countries to come study in Japan. They estimate that the number will have increased to 100,000 by the year 2000. Because Chinese and Japanese cultures are similar, and also because Japan is so advanced in technological research, it is likely that mainland China will greatly increase the number of its students in Japan. [passage omitted]

Footnotes

1. R. Hayhoe, *China's University and the Open Door*, Ontario Institute for Studies in Education, 1989.
2. RENMIN RIBAO, 23 December 1989.
3. ZHONGGUO HAIWAI XUEZHE [CHINESE SCHOLARS ABROAD] No. 6, November 1989.
4. Hayhoe, p. 121.
5. Ibid.

Phenomenon of 'Henpecking' Analyzed

91CM0287 Shanghai SHEHUI [SOCIETY] in Chinese No 72, 20 Jan 91 pp 31-33

[Article by Cheng Zhi (2052 0037): "A New Look at 'Henpecking'"]

[Text] "Henpecking," laughingly known as "tracheitis," is the domestic phenomenon whereby the wife regularly

places various degrees of limitations and controls on the economic, life, and social relations activities of the husband.

To discuss the phenomenon of henpecking in a somewhat scientific manner, we have tried to ascertain which spouse, under normal circumstances, usually has the final say or controls events in the seven areas of "allocation of living expenses," "amount of spending money," "purchase of valuable commodities," "education of children," "cost of supporting aged parents," "inviting guests and giving gifts," and "visiting relatives and friends," so as to determine the substance of what constitutes henpecking.

In July 1990, the family research center of JIATING [FAMILY] magazine society conducted a poll of 928 readers of varying social levels living in both towns and villages throughout the country, and the poll revealed that 53.7 percent of the husbands in China currently "suffer" from this "malady" to varying degrees. When we asked whether "you feel that the women now 'wear the pants' in the homes," a question intimately connected to the issue of henpecking, 30.8 percent answered "no," 47.7 percent answered "somewhat," 12.2 percent answered "quite a bit," 2.8 percent answered "a lot," and 6.6 percent answered "I can't say for sure." We can see from this that henpecking is in fact a frequently seen and frequently occurring "malady" in the homes of China.

As for the sexes of the respondents to the poll, 60.4 percent were male and 39.6 percent were female. As for age, 2.2 percent were under 20, 37 percent were between 20 and 29, 30.5 percent were between 30 and 39, 17.5 percent were between 40 and 49, 10 percent were between 50 and 59, and 2.9 percent were over 60. As for education, 2.5 percent of the respondents had received only an elementary school education, 24.6 percent had completed middle school, 37.7 percent had completed high school, and 35.2 percent had attended college or a university. As for employment, 18.5 percent were workers; 15.7 percent were peasants; 14.6 percent were enterprise cadres; 12.7 percent were scientists or technicians; 8.9 percent were teachers; 7.5 percent were specialists in the areas of culture, education, physical sciences, or health; 9.4 percent were state organ cadres; 1.3 percent were businessmen in state-run collectives; and 2 percent were self-employed. An additional 9.5 percent were in the military, on leave, or retired. As for residence, 60 percent lived in cities (this includes large, midsized, and small cities), and 40 percent lived in villages (including county towns and small hamlets).

I. What Kind of Family Is Most Susceptible to "Henpecking"?

1. Analyzing the ages, we see that the majority of henpecked families show up in the middle years. The proportions are: 44.9 percent of families under 30 experience henpecking and 64.2 percent of families between 30 and 39 are afflicted; it then drops, with 58 percent of

families between 40 and 49 suffering from henpecking; then 62.4 percent of families between 50 and 59 experience henpecking, and 51.9 percent of families over 60 are afflicted.

2. Looking at education, we see that families with more education also experience more henpecking. The numbers show that 49.4 percent of families with only elementary school educations suffer from henpecking, but 55.1 percent of high school-educated families and 56.2 percent of college-educated families experience henpecking.

3. As for vocations, more henpecking occurs in families that primarily perform mental labor. In 51.15 percent of worker families and 46.9 percent of farming families henpecking occurs, but 63.9 percent of scientist and technician families and 68.2 percent of state organ-employed cadre families are afflicted with henpecking.

4. Looking at residence, we see that 55 percent of families living in cities suffer from henpecking, while only 48.5 percent in rural areas do.

II. A, B, C, and D Type "Henpecking"

Henpecking manifests itself in many ways, but we can roughly categorize it according to four types:

1. Economic income-type henpecking. This variety of henpecking is characterized by the wife monopolizing control over all family expenditures, with the husband having no say in the matter, and the husband regularly turning over funds to the wife and the wife deciding how they will be allocated. The poll shows that 28.1 percent of wives hold the power over allocation of family living expenses, and that 33.3 percent of wives control the amount of spending money given to the husband.

2. Shifted responsibility for household labor-type henpecking. This is characterized by the wife basically taking no responsibility for household duties, and shifting the burden to the husband under a "joint production contract." The statistics show that 8.6 percent of husbands regularly clean the house, 12.9 percent of husbands regularly cook meals, 21.7 percent of husbands regularly do the grocery shopping, while the wife lifts nary a finger.

3. Restricted social relations-type henpecking. This is characterized by the wife having final say over the invitation of guests, the giving of gifts, and visits to friends and relatives, among other social activities. The husband must get permission before engaging in social activities and must provide an accounting upon their completion, with the wife preferring that the husband stay home every day, sticking constantly by her side. The poll reveals that 18.9 percent of wives determine which guests will be invited and to whom gifts will be given, while 11.2 percent of wives have final say over which friends and relatives will be visited.

4. Monopolized education of children-type henpecking. This is characterized by the wife not allowing the husband to butt in and discipline the kids, thus leaving the husband no way to carry out his duty of educating his children, or else the husband is kept in the dark and not consulted concerning educational matters. The poll reveals that 15.3 percent of wives have arrogated to themselves these duties to a greater or lesser extent.

In addition to these four categories of henpecking, there are other types of fairly high-order henpecking characterized by the wife extending her control into extra-family affairs and her husband's office relations, meddling in the work arrangements of the husband's department or unit, and so forth. We will not be discussing these types of henpecking at this time.

III. A Diagnosis of the Seriousness of "Henpecking"

Referring to the seven areas of family life discussed at the beginning of this article, we have given one point if the wife makes the decisions in the area and zero points if the husband makes the decisions, with a maximum total of seven points. Using this we can do a quantitative analysis and determine the severity of henpecking. One or two points indicates mild henpecking, three to five points indicates moderate henpecking, and six or seven points indicates extreme henpecking. The poll reveals that in homes with henpecking, the vast majority, 84.8 percent, experience mild henpecking, while moderate and extreme henpecking occurs in 13.6 and 1.6 percent of families respectively.

If we go further with the analysis, we discover the following: 1) the older the age, the higher the proportion of families "suffering" from moderate or extreme henpecking—4.4 percent of those under 30, 9.7 percent of those between 30 and 49, and 13.1 percent of those over 50. 2) The higher the level of education, the higher the proportion of those "suffering" from moderate or extreme henpecking—5.6 percent of those with only middle school educations or less, and 8.7 percent of those with high school educations or greater suffer moderate or extreme henpecking. 3) Moderate or extreme henpecking occurs more frequently in families that do mental labor than it does in families that do physical labor (9.1 percent versus 5.9 percent). 4) moderate or extreme henpecking occurs more frequently in families living in cities than it does in families living in rural areas (8.8 percent versus 4.7 percent).

IV. How Do People View "Henpecking"?

We asked the people if they agreed that "henpecking" is a normal phenomenon—21.8 percent "agreed," 64.3 percent "disagreed," and 13.9 percent "could not say for sure." Specifically, 1) The older the respondent, the more likely he was to have a negative attitude about henpecking—72.4 percent of those over 50, 68.3 percent of those between 30 and 49, and 55.4 percent of those under 30 did not agree that henpecking is a normal phenomenon. 2) Actually, more men than women (24.5

percent versus 17.7 percent) agreed that henpecking is a normal phenomenon. 3) The higher the level of education, the more likely they were to affirm the normalcy of henpecking—only 17.4 percent of those with elementary school educations felt that it was normal, but 24.2 percent of those with college educations agreed that it was normal.

Among those who adjudged henpecking to be normal, the main reasons they gave were: "It helps keep the domestic peace" (26.2 percent), or "it helps keep the husband in line" (44.2 percent). And among those who felt henpecking was not normal, the main reasons they gave were: "It hurts the husband's development" (36.4 percent), "it shows a lack of respect for the husband" (50.3 percent), or "it is a reflection of the inequality between men and women" (34.3 percent), while 8.6 percent gave other reasons.

V. Various Thoughts on the Cause of the "Henpecking" "Disease"

Researchers have long noted the objective existence of henpecking, but have held divergent views as to its cause, with the five discussed below being frequently heard:

1. The woman's liberation theory. Proponents of this theory feel that the growing incidence of henpecking today is merely a reflection in domestic life of the higher social position women have attained since they moved into territories of social production, and thus, as long as it does not get out of hand, it will be acceptable.

2. The rising yin, falling yang theory.

In this view, the widespread fact of henpecking is a sign that the enterprising spirit and creativity of males has vastly declined throughout society, and not only does this seriously hurt the dignity of men, but it forces men to resort to such forms of negative resistance as "stashing away secret funds for themselves."

3. The servile husband theory. According to this view, Chinese husbands have always been "servile" as reflected in the age-old popular phrase "fearing the old lady," and so, men living in such a psychocultural atmosphere can never escape the "misfortune" of being henpecked, but can only stave it off in different forms, manners, and degrees in accordance with the changing times.

4. The psycho-compensation theory. Proponents of this theory feel that the efforts of women have been directed toward the domestic front for quite a long time due to the social arrangement of "man taking care of matters outside the home, while woman takes care of matters inside the home." A woman's social "frustration" will inevitably impel her to compensate by being "domineering" at home, thus enabling her to achieve psychological balance.

5. The "lost-ground" theory. In this view, the increased incidence of "henpecking" is due primarily to the fact that certain "male chauvinist" husbands cannot adapt to

the new forms of male-female relations, and, longing for the "dignified glory days" of men, they come to feel that men have "lost ground" and they sense a distinct abundance of "henpecking."

We can see that all of the above explanations possess a certain reasonableness, yet to date none has been accepted as being authoritative.

VI. Certain Reflections on and Explanations for "Henpecking"

It is our belief that the wide incidence of henpecking is characteristic of this historical turning point wherein feudalistic male chauvinism has gradually been eliminated and the old model of "man takes care of affairs outside the home, while woman takes care of affairs inside the home" has been destroyed, yet a new, genuinely significant male-female equality and democratic awareness has not yet been completely established. Though we cannot categorically assert that homes that experience henpecking are not harmonious (the statistics show that most of them are harmonious), we should recognize the fact that homes with henpecking do not fit in with the new socialist model of husband-wife relations that we advocate; they do not accord with the modern domestic standards of "mutual respect, love, trust, encouragement, aid, freedom, understanding, and comfort" in husband-wife relations; nor do they fit in with the greater trend toward democracy in today's family life.

The numbers of families experiencing henpecking and the severity of the same as broken down by age, education, employment, and residence, and the different attitudes with respect to henpecking reveal that city families made up of young, well-educated, relatively liberal spouses performing mental labor are much more easily "afflicted" with henpecking and, moreover, they more

easily accept it. This is due primarily to the fact that in these families the feudalistic idea of "male dominance" is weaker, and in addition, because the men in these families have experienced a lessening of overall "actual power," they are psychologically more prepared to accept henpecking, they are more able to tolerate or acquiesce to henpecking, and they may have even turned over the family "throne" to the wife. As for the wives, higher social and economic positions and a stronger participatory consciousness render them no longer willing to be "docile and obedient." In the home they not only demand the right to say no, but they want allocation and decisionmaking powers, thereby making henpecking a reality, not merely a possibility.

We have to point out here that when a wife gives correct advice and puts reasonable limits on her husband out of love and concern such as by telling him to stop smoking, drinking, gambling, or using drugs, we should not accuse her of henpecking, nor should we accuse her of henpecking when she demands that he do his fair share of the family chores, or when unique circumstances exist that mandate a certain division of labor.

In actual life henpecking is really an extremely delicate and complex sociopsychological phenomenon, at times maintaining balance in the family and preserving harmony. Also, we should mention that in discussing the reality of henpecking, it is not our intent to conceal the widespread and more serious problem of "the loose and undisciplined husband." We would only hope that by looking at the situation from this angle we can let people know that the establishment of happy and harmonious domestic relations between husband and wife can come about only through mutual respect, understanding and trust and the mutual efforts of both spouses; it cannot be achieved by an attitude that "there is only one pair of pants in the family, and someone has to wear them, so it may as well be me."

Mainland-Israel Military Relations

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[Article by Li Ming-yi (2621 6900 5030), professor at Sun Yat-sen University Academic Research Department: "The Military Relationship of the Chinese Communists and Israel"]

[Text] Military relations is a generic term, including within itself the sale and transfer of weapons, the supply of national defense science and technology and the exchange and training of military personnel. These types of military relationships are normally the nation's most closely guarded secrets, and ordinary people have a great deal of difficulty attaining an overall understanding of them. Researchers must be very careful and prudent in investigating the events that occur between the two

nations, seeking out the strands and traces that lie therein, studying them, and then making some relatively corresponding inferences.

Is there actually a military relationship between the Chinese Communists and Israel? This is a topic which incites interest. If there are, how close is the connection? What areas does it cover, and what are the motives involved? This is the puzzle which this article attempts to unravel.

The PRC is itself a major arms supplier, having established seven large military production enterprises, having actively participated in international military arms expositions and sales, and having placed advertisements for the sale of military equipment in all the major military magazines.¹ According to estimates, in 1982 the PRC was the seventh largest arms dealer in the world, behind the USSR, the United States, France, England, Germany, and Italy. However, from 1984 onward, the monetary amount of Chinese Communist arms shipments rose rapidly, reaching \$1.7 billion and vaulting the Chinese Communists into fifth place in the world.² The accompanying chart shows the amounts of Chinese Communist arms sales.

Chinese Communist Weapons Transfers and Total Imports and Exports for 1977-1987

(in millions of current U.S. dollars)

Year	Amount of Weapons Imported	Amount of Weapons Exported	Total Imports	Total Exports	Weapons as Percent of Total Imports	Weapons as Percent of Total Exports
1977	100	100	6,595	8,110	1.5	1.4
1978	90	170	10,350	10,170	0.9	1.7
1979	180	140	14,490	13,730	2.2	1.0
1980	190	290	19,300	18,920	1.0	1.0
1981	120	400	17,940	21,490	0.7	1.9
1982	80	1,300	16,690	23,430	0.5	5.5
1983	100	1,600	18,480	23,710	0.5	6.7
1984	400	2,000	25,490	27,640	1.7	7.2
1985	600	675	39,480	31,320	1.5	2.2
1986	500	1,200	43,170	31,300	1.2	3.8
1987	380	1,000	43,390	39,450	0.9	2.5

Taken from SCPS Yearbook on PLA Affairs 1987, Sun Yat-sen Center for Policy Studies, National Sun Yat-sen University, Kaohsiung, Taiwan, ROC, pp. 172, 175.

As the chart indicates, Chinese Communist arms sales reached a peak in 1984, and in 1985 declined to approximately \$500 million; however, in 1986, it again climbed to \$1.1 billion, and, in fact, U.S. experts estimate that in 1984 Chinese Communist arms sales were \$3 billion,³ when the Chinese Communist sale of Silkworm missiles to Iran, totaling \$1.6 billion, is included.⁴ In 1987 Chinese Communist arms sales were over \$1 billion, showing that the PRC is indeed a major military arms merchant, and plays a major role as a supplier in the world military arms markets. However, insofar as Chinese Communist-Israeli military relations are concerned, the PRC plays the role of recipient, and the direction of weapons supply runs from Tel Aviv to

Beijing, opposite the normal flow from large nation to small nation. The reasons for this follow:

1. Israel has an advanced military industry.
2. Israel captured many USSR-produced weapons in the three Israeli-Arab wars of 1967, 1973, and 1982, and has improved them: the PRC is very interested in these.
3. Israel has access to Western, that is, U.S., advanced science and technology.
4. Israel is not subject to interference by restrictions of NATO's COCOM [Coordinating Committee on Export Controls] and can make military products available to the PRC.⁵

Considered from Israel's side, given the economic calculations, adding its long-term isolation and the imperative need for friends, the sale of weapons and cooperation becomes an important method of making friends.⁶ Closer analysis shows that the goals which Israel could attain through military sales include: 1) basic security interests; 2) economic interests; 3) political interests. As far as basic security interests are concerned, the factors that Israel must take into consideration when establishing foreign relations are a) repulsing enemy attacks and guaranteeing national defense; b) assembling together the dispersed Jewish people on the ancient Jewish lands; c) in an inimical environment, sustaining Israel's position, and as far as possible, changing enemies into friends. d) establishing a mutually beneficial culture, wherein commerce and foreign relations are closely locked as the basis of a world network and eliminate Israel's isolation among its close neighbors in the Middle East.⁷

As far as economic interests are concerned, there are at least more than 58,000 Israelis who are directly employed in state-run military industries.⁸ This is 5 percent of the nation's population. The annual income from military sales is more than \$1 billion and is growing yearly.⁹ Israel does not have the abundant oil resources of the Arab nations and has no alternative but to sell military weaponry.¹⁰

As for political interests, besides the necessities of national defense, excess military hardware can serve as gifts of friendship to obtain diplomatic recognition and friendship from Third World nations. Israel's sales of military goods to South Africa, the Belgian Congo [Zaire] and Taiwan can create a basis of mutual interdependence and prevent Israel's isolation.¹¹

With an understanding of the basic motives behind PRC-Israel military sales, one can then have a further understanding of the process of their interactions and the outcome.

I. Chinese Communist-Israel Military Relations in the Early Eighties (1980-1986)

This essay takes 1986 as the key year dividing eras; it is also the year in which the chairman of Israel Aircraft Industries, Ltd. (IAI) visited the PRC. IAI Chairman Singer was also at that time one of the relatively highest ranking officials of Israel to openly visit China; he had contact with Chinese officials at the Paris Conference when accompanying Tamir; we believe that Singer's visit was a major event in Chinese Communist-Israeli military relations.

The Chinese Communists evinced interest in Israeli weaponry early on. In June 1975 seven buyers from the China mainland met with Israeli factory representatives attending the Paris Air Show, and expressed an interest in the Kfir fighter then being exhibited for the first time.¹² In April 1979, Shaul Eisenberg became the first Jewish businessman to fly by private aircraft from Tel Aviv to Beijing for business discussions. He later

arranged for an advisory group to visit the mainland; among the people going were technicians from the state-run aircraft factory.¹³ Later, in 1982, the PRC and Israel signed a two-year agreement under which Israel would send 70 military advisers to help the Communists carry out "modernization."¹⁴ This was the initial personnel training which Israel provided the PRC.

By 1986 the Israelis had provided the Chinese Communists with at least the following weaponry:

1. An electronic firing system for an Israeli tank manufactured by Israel.
2. A tank night-vision system, because the capabilities of the Israeli system far exceeded those developed by other countries.
3. A 105-caliber gun for a Soviet-made tank, to replace the 100-caliber one formerly used by the Chinese.
4. Communications and wireless systems.¹⁵

JANE'S DEFENCE WEEKLY reported in 1985 that the Israelis and the Chinese Communists had signed a weapons trade agreement, causing Israeli weapons exports to reach \$1.2 billion per year.¹⁶ This news item was denied by the Communists as having no basis in fact.¹⁷ English news circles had an even more alarming conjecture, speculating that, in 1989, Israel had replaced England as the largest arms supplier to the PRC, having sold them 3 billion English pounds worth of arms.¹⁸ Although this figure may be somewhat exaggerated, most people already believed that the Chinese Communists and Israel had indeed established a military relationship. In December 1986, an Israeli general officer Labidute [2139 3024 2629 3676], the chief editor of the Israeli Air Force journal, visited the international air show in Shanghai at the formal invitation of the Chinese Communists.¹⁹ This is yet more evidence of the Israeli-PRC military relationship.

The weapons sold by Israel are shipped out of Tel Aviv to Beijing. The routing is as follows: (Air shipment) From Tel Aviv to Copenhagen, across the Arctic Circle to Anchorage and then to Tokyo, Hong Kong, Bangkok, and Beijing. The 150-caliber gun which the Beijing authorities mounted on the T55 and T62 tanks was shipped by sea to Bandar, Iran. Using this route, the PRC can sell and transfer arms at a profit to third countries.²⁰ This mutual sharing of profits forms a military sales food chain. Besides tank equipment, Israel also sells to the PRC Uzi machine guns and other small arms, and larger weapons like the Gabriel MK3 surface-to-surface naval missile.²¹

Israel Aircraft Industries (IAI) is the largest of Israel's three major military industrial enterprises.²² It was established in 1953. Between 1984 and 1985 its arms exports amounted to approximately \$900,000; it is a major hub of Israeli foreign arms sales. It has under it five divisions and 14 factories responsible for design, electrical power, production, engines, machinery, etc. Its

products include aircraft and missiles; it has technical cooperation arrangements with the U.S. General [Electric] Company and McDonnell [Douglas] Company for production of the F-15 and F-16.²³ Israel itself produces the Kfir and Lavi aircraft, which are world renowned. The Kfir first appeared in 1975; Chinese Communist personnel came to view it and expressed deep interest in it.²⁴

IAI also designed and produces the Gabriel MK3, a radar-guided sea-to-sea or air-to-sea missile with an effective range of 36 miles. There is also the Barak, an antiair and antimissile guided missile.²⁵ The above-mentioned aircraft technology and missile design are areas in great need of strengthening by the Communists; therefore, it is not surprising that they gave a great deal of thought to inviting the chairman of IAI to visit the mainland. Another item of advanced technology produced by IAI is the Scout mini-RPV (remotely piloted vehicle) which has applications in antiradar and antimissile missiles, and the design of which is somewhat lighter than that of the Boeing BRAVE-200 RPV, and also cheaper. This is also a bit of advanced technology that the Communists would like to learn.²⁶

Mr. Singer, the chairman of IAI who visited the PRC in August 1986, was also concurrently director of the Haifa Technics Institute of Technology.²⁷ In Beijing Singer talked with Chinese Communist aviation experts, the president of the Academy of Sciences, and Chinese officials. He indicated that the Chinese desired to participate in the international aviation science conference to be held in Israel in 1988.²⁸ Singer refused to discuss further details of the talks just held. However, in the late 1980's, the exchange of missile technology between China and Israel, the improvements in radar, and the improvements in the Jian-7 aircraft cannot but have some connection to IAI. Singer's journey obviously resulted in some agreement regarding the sending of personnel and the provision of technology and can be considered a clear omen of the development of the Chinese Communist-Israeli military relationship.

II. Chinese Communist-Israeli Military Relations in the Late 1980's (1987-Present)

Near the end of 1980's the military relationship between the PRC and Israel became much closer. Besides the never-ending rumors about helping the Chinese Communists refit their tanks, there were the following traces of weapons transfers.

1. Tank modernization processes.
2. Transfer of missile technology.
3. Radar systems for fighter aircraft.
4. An early warning system.
5. Technology for building the LAVI fighter aircraft.²⁹

Just as Professor Klieman has stated, the provision of weapons and consultations and advice has been Israel's

foreign relations' policy during its pursuit of independence, and has been one of its most longstanding and effective methodologies.³⁰ This transfer of the five types of weapons and the technology, and the corresponding cooperation of Israeli technicians, obviously is in keeping with Chinese Communist needs, and thus relations between the two can remain so stable. According to the London TIMES, 24 Israeli technicians traveled to Beijing via Denmark and Thailand in order to do some three months of refurbishment work on tanks. This included installing a new gun control system, laser range-finders, and a new 105-mm gun. Although the personnel arrived by air, the necessary Israeli equipment was shipped to the PRC by ship out of Elat.³¹ Again, the Type 80 armored vehicle manufactured by the Chinese Communists in 1988 was refitted with a 105-mm main gun similar to the NATO L7 series and a thermostat-jacket-body. This came under the rubric of Deng Xiaoping's defense modernization and was one of the Western technical products obtained by Israel.³² This sort of refitting increased some of the battle capabilities of Chinese Communist tanks.

In April 1988, with the exposure of the fake passport incident in Hong Kong, there was much speculation about Israeli transfer of missile technology to the Chinese Communists; the five engineers who were carrying fake Philippine passports were technicians of IMI, Israel Military Industries. IMI is Israel's second-largest arms manufacturer, second only to IAI. IMI's main products are light weapons like the Uzi submachine gun, but also includes component parts of large rockets such as the Israeli Gabriel and Shafair missiles which are produced by IMI. A TOW antitank missile is also produced by IMI, of which only some 40 percent are used by the IDF (Israel Defense Forces), while the remaining 60 percent are sold abroad for foreign exchange.³³

These five military personnel left the mainland in November 1987; they had arrived in Hong Kong in October and heard reports from officers of the Israeli Consulate, trade intermediaries, and a former Israeli naval commander, obtained their forged passports, and then left for Beijing. In Beijing they had signed a trade agreement with Chinese Communist officials: Israel wanted not only to provide a new missile warhead to the Communists, but also the armor-piercing mechanism.³⁴ According to what Israel Radomsky, one of the engineers, said, the reason they were carrying false passports was because the Chinese Communists wanted this trade transaction to be kept highly secret. Radomsky also noted that each trade transaction done by IMI is passed by the Israeli National Defense Committee, and this transaction was carried out with the approval of the highest levels of the Israeli Government.³⁵ Besides Radomsky, the other four engineers were Willie Salmon, Chanoch Ayalon, Shmuel Ela, and Asa Ziv. They are all Israeli missile experts.³⁶ The five military personnel had gone to the mainland at the invitation of NORINCO [China North Industries Corporation]; the trade amounted to probably several hundred million U.S.

dollars. According to JANE'S DEFENCE WEEKLY, it is estimated that about \$3 billion in military trade between Israel and the PRC already is in effect.³⁷

Israeli Defense Minister Rabin denies this. He says that the statement that Israel is helping the PRC to develop a surface-to-surface missile is groundless talk.³⁸ A spokesman for the Chinese Communist Foreign Affairs Office denied that there was any trade in missiles between Israel and the PRC, stating that the entire story was only rumor.³⁹

In reality, the middleman in this deal, Joseph Eyal, was a retired Israeli vice admiral who arrived in Hong Kong in 1984 and set up a business in the Central District to promote business for the Israeli military weapons industries in Asia. His company had carried on some military trade with the Thai and Philippine Governments.⁴⁰ When the false passport was discovered by the Hong Kong authorities, the Israeli consul general in Hong Kong personally went to intervene, hoping that the Hong Kong police would not place charges.⁴¹ He indicated that there was a great deal of attention being paid to this affair by Israeli officialdom. Eyal was eventually sentenced to two years' imprisonment.⁴²

In the aftermath of the false passport incident, many observers thought that in helping the Chinese Communists develop their Dongfeng-3 missile, the Israeli experts were not only helping them to improve this type of missile's guidance system and to increase its accuracy, but was of even more help in changing its warhead from a nuclear to a conventional type. That the Chinese Communists later sold the Dongfeng-III to Saudi Arabia was not something that the Israelis viewed with pleasure.⁴³

In addition to missile technology, PRC requests to the Israelis included electronic equipment and strengthening of the Jian-7 aircraft. There were reports that Israeli experts on the mainland of China numbered in the hundreds and were carrying out projects costing \$1 billion and making use of the Israeli-produced early warning system and advanced electronics in order to protect the PRC's northern border areas against a Soviet invasion. This came about after the Chinese Communists learned that in 1981 Israel had effectively eliminated a Soviet-built anti-air missile system. The Chinese Communists immediately requested that the Israelis install such a system for them. Observers call the system a modern electronic Great Wall.⁴⁴ At this same time the Chinese Communists were importing the major components of the Lavi fighter aircraft, including the radar system, and fly-by-wire and control-configured vehicle (CCV) advanced technology, which were of key importance to the PRC's space industry.⁴⁵ The Israelis were set to make several hundred million dollars from this transfer, which would pay off the cost of research and development of the original Lavi fighter. Both the PRC and Israel maintained silence regarding this transfer of technology, neither admitting nor denying it. The PRC did not want to imperil its sale of military goods to the

Saudis, and Israel did not make a sound in order to avoid U.S. accusations and the United States blaming them for transferring high technology to the Communists.⁴⁶ However, an Israeli expert pointed out that Israel had not in fact transferred any U.S. technology to the PRC.⁴⁷ The radar system used on the Lavi fighter was the result of research done by Israel after the 1973 Yom Kippur war in which 102 aircraft were shot down by Soviet-built surface-to-air missiles. This radar is capable of determining a missile's trajectory and is a product of which the Israelis are quite proud.⁴⁸ The radar system allows the aircraft to fly at low altitudes, penetrate enemy airspace, and avoid dense enemy air-defense systems and electronic surveillance.⁴⁹ This product was one of the more expensive items in PRC-Israeli military trade. In 1989 Israeli Defense Minister Rabin reported to the Knesset on military sales and candidly stated that in 1988 military sales had amounted to approximately \$2 billion, double the 1987 figure.⁵⁰ Rabin indicated that this was the result of increased exports to Latin America. In particular, the Kfir fighter manufactured by IAI was a major export item.⁵¹ Rabin did not mention export of the Lavi systems to China, however, that large figure probably was one cause of Israel's military sales profits.

Because the PRC wanted to improve the WP17B engine of the Jian-7 fighter, it signed a technical cooperation agreement with France's Snecma Corporation; the contract was to run three years, and the PRC had to pay out \$365 million; it called for cooperative development of the Jian-7 engine's turbine combustion chamber in order to increase the thrust of the engine.⁵² For the PRC to transfer an original Lavi fighter and use it to develop the Jian-X fighter would involve a cost many times that of the above-mentioned \$365 million.⁵³

Our ROC IDF fighter and the PRC's Jian-X based on the Lavi are both in turn based on the U.S. F-16 fighter. Hereafter, above the Taiwan strait, whoever can exceed the other in technology can control that airspace. Thus it is hard to fault the Chinese Communists for doing their utmost to stay on good terms with IAI.⁵⁴ This is also something the ROC should be alert to.

III. The Symbolic Meaning of the Chinese Communist-Israel Military Connection

For safety, political, and economic reasons Israel sells weapons to, transfers technology to, and trains personnel for the Chinese Communists. These are also the three concrete reasons why Israel sells weapons abroad and uses weapons to secure its living space. The motives of the Chinese Communists, on the other hand, are to bring in the newest advanced science and technology in order to strengthen the People's Liberation Army's martial capabilities.

The weapons that the PRC imports from Israel are for the most part high-technology products, such as the electronic firing system for tanks, night vision equipment, 105-mm cannon, communications and radio systems, early warning systems, technology for building the

Lavi aircraft, and missile technology. All of these are items which must be improved under the PRC's national defense modernization programs. Besides the weapons and equipment mentioned above, having gone through three Arab-Israeli wars, the Israeli Army also developed and is using anti-armor guided missiles such as the TOW, the Dragon, the SS-11, and the Cobra, plus surface-based air defense missiles such as the Redeye, the Vulcan/Chaparral system, and short-range surface-to-surface missiles. The Israeli Air Force has the Kfir and the Lavi fighters, the F-15 Eagle, the A-4 Skyhawk, E-2E Eagle-Eye Airborne Early Warning aircraft, and the Scout and RPV's.⁵⁵ These aircraft and this technology are just fine copybooks for the Chinese Communists to improve the Soviet equipment they have on hand. The PRC's purchase of weapons and technology from Israel is naturally a mutually beneficial act. Israel on the one hand profits from the military sales and the PRC obtains the science and technology it needs. The PRC uses the technology to improve the equipment of the People's Liberation Army [PLA] and at the same time sells it abroad to make a profit. It is a weapon-processing system; the T-62 tanks for instance—Israel refitted them for the PRC with 105-mm guns, night vision and other instrumentation, and then Beijing sold them to the Arab nations at a profit. And the Dongfeng-3 missile: Israel helped the Communists with their technical improvements and then the PRC sold them to the Saudis.⁵⁶ In foreign military sales for the last several years the PRC has been near the top of the list, and its yearly take has been over \$1 billion. According to the Stockholm [International] Peace Institute's 1988 almanac, the Chinese Communists' overseas military sales for 1987 amounted to \$1.04 billion, sixth in the world rankings.⁵⁷ The Chinese Communist weapons are cheap, quickly delivered, and carry no political conditions—three big characteristics—and thus are well and widely received in the Third World.⁵⁸ Take aircraft for instance: for the price of one U.S. F-16 one can buy five Chinese Communist Jian-7M's.⁵⁹ No wonder they are so popular on the arms markets.

The amount of trade between the PRC and Israel has always been a secret. The authoritative JANE'S DEFENCE WEEKLY estimates it at about \$3 billion.⁶⁰ This was immediately denied by the Chinese Communist side. However, in order to improve the navigation and fire control systems of the Qiang-5 aircraft, the Chinese Communists received technical cooperation from Italy.⁶¹ It cooperated with France to improve the engine of the Jian-7,⁶² and spent several hundred million dollars in each case. In 1986, in order to improve the Jian-8 electronic navigation system, it was prepared to purchase \$550 million worth of military technology.⁶³ Looking at these examples, it would not seem difficult for PRC-Israeli trade to run up a tab of \$3 billion. And viewed from the standpoint of \$3 billion in trade for five years, it represents 50 percent of Israeli military sales, a rather alarming ratio.⁶⁴

The infusion of the above-mentioned technology, as far as the Chinese Communist military is concerned, has

already created a structural change. As Professor Lin Chung-pin [2651 0022 2430] states, "The poor and backward Chinese Communists—their strategic nuclear weapons and space achievements are extraordinary, and some people call them 'pockets of excellence'; in the past several years, in the area of non-strategic weapons development, they have also exhibited a similar confidence and ambition."⁶⁵ The Communists improve their weaponry selectively. The Chinese Communist Navy proclaims that it has evolved from a coastal defense system to an offensive force with guided missiles as the main element, having various types of rockets, surface-to-air, surface-to-surface, air-to-surface and submarine-launched rockets.⁶⁶ In May 1984 the PRC tested a new type of mobile missile (CSS-X-5) that employs solid fuel, is transported by truck, and has a range of 2,400 kilometers. It is an improved version of the CSS-2.⁶⁷ And the CSS-2 is just the Dongfeng-2 missile for which the Israelis improved the technology.

The Chinese Communist Air Force has the third-largest number of aircraft in the world. It imported technology from the United States, Italy, and France to improve respectively the Qiang-5, Jian-8, and Jian-11's electronic navigation equipment.⁶⁸ The PRC is also developing unmanned aircraft for reconnaissance use.⁶⁹ These are related to the Israeli Scout mini-RPV. In the same manner, the Chinese Communists imported technology from the Lavi fighter from Israel to improve the fighting capability of the Jian-7 fighter. On 5 April 1988, in talking about the comparison of the PLA and advanced military nations, Chinese Communist PLA Chief of Staff Chi Haotian pointed out "We want to have the things they have; we also want to have the things they do not have."⁷⁰ This is a perfect example of the PLA's confidence and ambition. It is not surprising that the PLA wants to import large amounts of foreign technology.

Israel sells military supplies to the Chinese Communists on the basis of its economic, security, and political interests. As far as Israel is concerned, they have already fulfilled their requirements; as far as the PRC is concerned, it also fulfills national defense, security, economic, and political requirements.⁷¹ However, in the Israeli case, there is a latent danger in selling arms to the Chinese Communists and that is that the Chinese Communists will use the technology obtained from Israel to improve their existing arms and turn around and sell them to the Arab nations. The present examples are the T62 tanks and the Dongfeng-2 missile, which can have an adverse effect on Israeli national defense. This is something which Israel must prepare for and handle when making military sales to the PRC.

As far as the ROC is concerned, the continuation of Chinese Communist-Israeli military relations, having produced improvement in the tanks, aircraft, and missiles of the Chinese Communist Air Force and Army, will have an ill effect on the military balance on the two sides of the strait. The air weaponry now on hand with the Chinese Communists has already poses a certain amount of threat to Taiwan.⁷² Israel's military sales have

indeed added wings to the tiger and made the PLA even more to be dreaded. As for the political side of Israel's military sales to the Chinese Communists, further exploration is required to determine whether the influence on Taiwan and the future of the PRC and Israel establishing diplomatic relations, whether things will get better or worse.⁷³

IV. The Political Implications of Israeli Military Sales to the Chinese Communist

The question of military sales has accompanied the improvement of Chinese Communist-Israeli relations and has had new developments. In August 1986 when the chairman of the Israel Aircraft Industries, Ltd., visited China, he laid the foundation of the exchange of military personnel between the two countries. In the same manner, in September 1986 when Abraham Tamir, chief of the premier's office, met with Chinese officials in Paris, it was the first meeting of high-level officials of both sides in many years, and formed the basis for a meeting of their foreign ministers.⁷⁴

On 30 September 1987 Chinese Communist foreign minister Wu Xueqian met with Israeli foreign minister [Shimon] Peres at the Chinese Communists' UN Embassy in New York, where they established the form for communications between the two countries; that is, that the foreign ministers of the two countries could hold occasional consultations outside their respective countries (New York, Paris, and so on).⁷⁵ Because the content of the meetings was kept secret, no one had firsthand knowledge; however, from the December 1987 "false passport incident" one can surmise that if they had not had the approval of high levels of the Israeli Government, the five Israeli military industry engineers could not have entered China to give them advanced instruction regarding missile technology.⁷⁶

In October 1988 the new [as published] Israeli Foreign Minister Peres met with Chinese Communist Foreign Minister Qian Qichen in New York and signed an agreement for the exchange of representatives in goodwill visits.⁷⁷

In January 1989 new Israeli Foreign Minister Moshe Arens met with Chinese Communist Foreign Minister Qian in Paris and concluded an agreement to have their permanent ambassadors to the United Nations act as liaison representatives.⁷⁸ At the end of September 1989, Chinese Communist Foreign Minister Qian took advantage of a meeting in New York, and payed a call on Israeli Foreign Minister Arens; this was their fourth meeting in less than eight months after their initial meeting in Paris.⁷⁹ Although these four meetings of the foreign ministers were concerned primarily with the exchange of views about the Middle East situation, the exchange of visitors, and the establishment of the liaison office, one can also easily deduce the more secret military portions by taking into account Israeli Defense Minister Rabin's admission in speaking to the Knesset in 1989 that the amount of military sales in 1988 was

almost \$2 billion, double that of 1987, coupled with the closely spaced meetings of the foreign affairs personnel.

The mere fact of meetings between the two countries is not sufficient to reflect the importance of Israeli military sales to the Communists. Between the Tiananmen incident of June 1989 and 1990, Israel leaped to first place in military sales to the Chinese Communists, usurping the United States, Britain, and France.⁸⁰ Israel has become the most important supplier of precision defense technology to the Chinese Communists. In contrast to the United States and France's temporary stoppage of exports of high technology and science to the Chinese Communists, Israel has shipped missile technology and a prototype fighter aircraft, thus filling a very vital gap.

After the Tiananmen incident, U.S. President Bush issued an executive order stopping "the commercial export of weapons" and U.S. military sales to China. This order, in addition to stopping routine military sales, such as artillery radar, larger artillery shell production equipment, antisubmarine torpedoes, and the Chinook helicopter, also forbids the export of automatic teller machines used by banks that incorporate electronic coding devices.⁸¹ France's plans to improve the F-7 fighter's engine and the U.S. Grumman's plan to develop the Jian-7 were all stopped in midcourse.⁸² Israel on the one hand has Western high-level science and technology and on the other need not abide by the COCOM agreements.⁸³ So Israel is happy to supply military goods to the Chinese Communists. Israel manufactures some 80 percent of its own military equipment and need not fear problems with the transfer of foreign military equipment; add to this the fact that the United States heavily supports Israel, and that Israel can export as desired many items which the United States controls the export of.⁸⁴

The military relationship between the Chinese Communists and Israel, in addition to the improvement in governmental relations, is most important to the Chinese Communists for of the acquisition of science and technology. As for Israel, it is beneficial in terms of economic profits and the reduction in the costs of research and development.

From the contact with Israel, the PRC has also attained the goal of isolating the ROC. The ROC does obtain some degree of military technological transfer from Israel, but as far as results are concerned, they are much less than the PRC receives.⁸⁵ For instance, the short-range Arrow missile cannot compare with the Dongfeng III missile as an effective defense.

As for regional politics, the PRC wants to become involved in Middle East affairs, establish diplomatic relations with the Arabs, and gain the Arab nations' trust, but the most important basic accomplishment is to maintain good relations with Israel. Although the Chinese Communists have consistently maintained that they support the Palestine Liberation Organization

(PLO), they have obviously limited their inimical attitude toward Israel, with an eye toward joining the Middle East Peace Conference. Israel on the other hand has consistently maintained that, if the PRC wants to join the conference, then it must first establish diplomatic relations with Israel. Under this precondition the relationship of the two can see daily improvement and the development of the military relationship. It would be the product of the above-mentioned collaboration to meet their various interests and, as far as both are concerned, would be mutually beneficial. In February 1990 Israel and the Chinese Communists established liaison offices; the Chinese Communists set up a "Tourist Office" in Tel Aviv, and the Israelis established an "Israeli Scientific and Cultural Research Institute in Beijing."⁸⁶ These two structures are similar to the "liaison offices" that were set up before the United States and the Chinese Communists established diplomatic relations. The official status may not be as high as that of the liaison offices, but they certainly are not on the same level as an ordinary company or private trade office. The establishment of these structures is helpful to both parties in political, cultural, commercial, athletic, and educational exchanges. Naturally, it is even more helpful in the establishment and management of military relations. We should keep an eye on their trends and developments.

From the angle of world politics, the Middle East is an area in which the United States and the Soviet Union are contending for leadership. The Chinese Communists have consistently presented themselves as the spokesmen for the Third World, attempting to play the role of stage director in the area. Thus, the Chinese Communist-Israel relationship puts some pressure on the Soviet Union. Gorbachev stated that they could not ignore the lack of contact between Israel and the USSR and then actively sought to start contact between the two. Although at first there were some problems with the emigration of Soviet Jews, eventually they did establish consulates in September 1990.⁸⁷ However, for both the USSR and the PRC, no matter how they support the PLO or the Arab countries, they cannot forget the influence Israel has in the Middle East.

As for the political implications of Israeli military sales to the Chinese Communists, in addition to maintaining stable development of the two countries' political relations, the actual interests also include science and technology, economics, the isolation of the ROC by the PRC, the PRC's inclusion in Middle East affairs, and the ambitions of the USSR and the United States. The transfer of military technology and the exchange of personnel has always been the high point in cooperation between two countries; this rule of thumb can be proven by the situation in the cooperation of the Chinese Communists and Israel.

Footnotes

1. The seven large corporations are a) The China Nuclear Energy Industry Corporation. b) The China National

Aero-Technology Import-Export Corporation. c) The China National Electronics Import-Export Corporation. d) The China North Industries Corporation. e) The China Shipbuilding Corporation. f) The China Precision Machinery Import-Export Corporation. g) The China Great Wall Industry Corporation. The China North Industries Corporation is the Chinese Communists' largest military equipment supplier. Its main products include tanks, artillery, guns, optical instruments, and so on. For an introduction, see XIANDAI JUNSHI [CONMILIT] July 1984, "The PRC's China North Industries." In 1986 alone the Chinese Communists attended eight military weapons exhibitions in Beijing, Singapore, California, Sweden, England and Gabon in Africa to sell PRC military equipment. (See T'ang Chi-shu's [0781 0796 2562] analysis of PRC military sales in CHUNG KUO TA LU YAN CHIU Volume 30, No. 6, p. 32.) See also SHIH CHIEH JIH PAO, 12 November 1986, p. 8. The Chinese Communists also participated in the Asian Defense Exhibition in Bangkok in December 1988, the 38th Paris Air Show in Paris in June 1989, and the Naval Exhibition in Italy in May 1989. The PRC also held the Beijing International Defense Technology Exhibition in 1988 in Beijing and the Beijing International Aviation Exhibition in 1989, both of which drew many nations' industrial exhibitors. See CONMILIT January, February, September and November issues for 1989.

2. Bob Furlong, "China's Arms Export Policy," INTERNATIONAL DEFENSE REVIEW December 1984, p. 1,795. Also WP [THE WASHINGTON POST] 4 April 1988, p. A1.

3. INTERNATIONAL HERALD TRIBUNE, 20 May 1987.

4. Yitzhak Shichor, "The Year of the Silkworms: China's Arms Transactions, 1987" SCPS Yearbook on PLA Affairs (SCPS Kaohsiung, Taiwan, 1988), p. 153.

5. "Israel's Other Arms Deal: Selling Weapons to China," INTERNATIONAL HERALD TRIBUNE, 30 November 1987. COCOM is a NATO organization (excluding Iceland, including Japan) charged with controlling the export of merchandise to the Communist Bloc, to prevent the export of military high technology to them. COCOM is short for Coordinating Committee for Military Export Controls [as published]. See THE NEW YORK TIMES, 3 August 1985, p. 3.

6. Israel Shahak, *Israel's Global Role—Weapon for Repression* (the Association of Arab-American University Graduates, Inc. 1982), p. 26.

7. Aaraon S. Klieman, *Israel's Global Reach—Arms Sales as Diplomacy* (New York, Pergamon-Brassey's International Defense Publishers, Library of Congress Cataloging Publication Data, printed 1985), p. 35.

8. Ibid. p. 57.

9. JANE'S DEFENCE WEEKLY, 10 October 1987, pp. 832-835.

10. According to Klieman's calculations, Israel's military export sales were 9.3 percent of the nation's gross foreign trade in 1970; in 1975 it was 16 percent; in 1984 it was between 34 and 44 percent, an indication of its growth. See Aaron Klieman, "Middle-Range Arms Suppliers: The Israel Case," JOURNAL OF INTERNATIONAL AFFAIRS, Volume 40, No. 1, Summer 1986, p. 120.
11. Klieman, op. cit. (note 7), p. 151, p. 154, p. 161.
12. CHUNG KUNG WEN TI TZU LIAO CHOU KAN, 15 December 1986, No. 142, p. 31. See also THE WASHINGTON POST, 30 November 1987, p. C1.
13. THE WASHINGTON POST, 30 November 1987.
14. CHUNG YANG JIH PAO 24 July 1986, report from Paris.
15. See note 13. See also INTERNATIONAL HERALD TRIBUNE, 6-7 December 1986, p. 5; THE NEW YORK TIMES, 3 August 1985; and THE GUARDIAN, 3 December 1986, p. 7.
16. CHUNG YANG JIH PAO, 31 July 1985, and JANE'S DEFENCE WEEKLY, 20 November 1984.
17. TA KUNG PAO, 1 August 1985, p. 3.
18. DAILY TELEGRAPH (London) 25 February 1986.
19. See Note 12.
20. SOUTH CHINA MORNING POST, 26 June 1987, Saturday Review.
21. Ibid.
22. Klieman, op. cit. (note 7), pp. 77-79. The other two are Israel Military Industries (IMI) and the Armament Development Authority.
23. Ibid. The five departments are a) Aircraft Manufacturing Division. b) Bedek Aviation Division. c) Combined Technologies Division. d) Electronics Division. e) Engineering Division.
24. See note 12 and Ibid.
25. Ibid.
26. DEFENSE AND FOREIGN AFFAIRS, May 1986, p. 23.
27. CHUNG YANG SHE [CNA], 26 August 1986.
28. CHUNG YANG SHE, 22 September 1986.
29. INTERNATIONAL HERALD TRIBUNE, 4 April 1988, p. 2. TZU LI TSAO PAO, 31 May 1988. SOUTH CHINA MORNING POST, 24 May 1988, p. 8. CHUNG KUO SHIH PAO 11 April 1988, p. 1.
30. Klieman, op. cit. (note 10), p. 120.
31. HSING TAO JIH PAO, 20 June 1987; CHUNG YANG SHE, 20 [month not given] 1987.
32. LIEN HO PAO, 27 January 1988, p. 1.
33. Klieman, op. cit. (note 7), pp. 79-81.
34. SOUTH CHINA MORNING POST, 3-4 April 1988, p. 8; CHUNG KUO SHIH PAO 4 April 1988; MING PAO, 4 April 1988, p. 2.
35. Ibid.
36. Ibid.
37. INTERNATIONAL HERALD TRIBUNE, 4 April 1988, p. 40; JAPAN TIMES, 4 April 1988, p. 4.
38. Ibid.
39. JAPAN TIMES, 5 April 1988, p. 1. See also INTERNATIONAL HERALD TRIBUNE, 4 April 1988, p. 4.
40. MING PAO, 4 April 1988, p. 2. The Hong Kong press transliterated his name as Gufuni; the original was Joseph Eyal.
41. Ibid.
42. The crime was possession of a false passport and illegal possession of an electric prod. The lawyer considered it inappropriate for further openness, a regrettable thing. See LIEN HO PAO, 7 May 1988, p. 1.
43. LIEN HO PAO 24 May 1988, p. 10; CHING NIEN PAO 25 May 1988, p. 15. THE WASHINGTON POST, 29 May 1988, p. C7; CHUNG KUO SHIH PAO 6 June 1988, p. 13.
44. TZU LI TSAO PAO, 30 May 1988, p. 12; SOUTH CHINA MORNING POST, 30 May 1988, p. 1.
45. LIEN HO PAO, 5 December 1988; JAPAN TIMES, 11 April 1988, p. 4; SOUTH CHINA MORNING POST, 11 April 1988, p. 1.
46. Ibid.
47. Ibid.
48. Ibid.
49. CHUNG KUO SHIH PAO, 11 April 1988, p. 1.
50. FINANCIAL TIMES, 12 January 1989, p. 6.
51. Ibid.
52. CHUNG KUO SHIH PAO, 12 November 1988, p. 13.
53. LIEN HO PAO, 5 December 1988, p. 3.
54. LIEN HO PAO, 12 March 1990, p. 2.
55. Philip Towle, editor; Wang Yu-t'ing, translator, *Wai-kuo Chunshih-li Ping-ku Chi Chien-t'ao* (Li-ming Cultural Affairs Company, Taipei, 1986) p. 256.

56. Yitzhak Shichor, "East Wind Over Arabia; The Sino-Saudi Missile Deal, Its Origins and Implications"; unpublished manuscript.
57. LIEN HO PAO, 18 August 1988; See also MING PAO, 3 August 1988; CHUNG KUO SHIH PAO, 12 July 1988, p. 13.
58. CHUNG KUO SHIH PAO, 13 June 1988, p. 13.
59. THE WASHINGTON POST, 12 November 1988.
60. JANE'S DEFENCE WEEKLY, 20 November 1984.
61. RENMIN RIBAO, 16 November 1986.
62. CHUNG KUO SHIH PAO, 12 November 1988.
63. See note 59. See also Wang Chien-hsun, editor, *Kuo-chi Wu-ch'i Chuan-yi* (International Relations Center, Taipei, 1988), p. 87.
64. FINANCIAL TIMES, 12 January 1989, p. 6. JANE'S DEFENCE estimated that from 1980 to 1985 the military sales were \$3 billion, while the Israeli sales in these five years were not quite \$6 billion, thus the ratio was one-half. However, because the military sales figure was a secret, this figure and ratio can only be taken as an estimate. According to calculations by the U.S. Arms Control and Disarmament Agency, WORLD MILITARY EXPENDITURES AND ARMS TRANSFERS, and the Stockholm International Peace research Institute (SIPRI), Israeli arms sales in 1980 reached \$1.2 billion, and was at about \$1 billion thereafter and only reached \$2 billion in 1988.
65. Lin Chung-wu, *Chung-kung Chun-shih Hsien-tai-hua Chi Ch'i Tui T'ai-wan Chi Yi-yi* [Military Modernization of the PRC Military and Its Implications for Taiwan], a paper prepared for the National Defense Foreign Affairs Committee of the Civil National Construction Committee for the National Policy Center, 1989.
66. Ibid.
67. Ting Shu-fang, "Chinese Communist Strategic Nuclear Weapons in a Period of Change," CHUNG KUO TA LU YAN CHIU [CHINA MAINLAND STUDIES], Volume 32, No. 2, p. 54.
68. Lin Chung-wu, op cit.
69. Ibid.
70. Ibid.
71. Improvement in PLA's equipment is a fulfillment of national defense and security requirements. The reproduction of military equipment and their foreign sales meets an economic requirement. Mutual exchanges fulfill requirements on both sides.
72. See Lin Chung-wu, op cit. The forms of the seven threats the Chinese Communists can pose to Taiwan are: a) Disrupting public order; b) Spying with fishing boats; c) Coastal blockade; d) Air-dropped infiltration; e) Missile bombardment; f) Air and sea invasion; g) Land invasion.
73. The sale of weapons between the Chinese Communists and Israel has obvious effects on the furtherance of their relations, however, if one adds the Arab nations and the PLO into the equation, contacts between Israel and the Chinese Communists, as far as the benefits to be derived by the Chinese Communists are concerned, are not all straightforward; relations between the two could perhaps sour because of the intrusion of the Arab nations. The role that the ROC should play in such a situation should be of interest to many people.
74. CHUNG YANG SHE, 23 September 1986, Reuters dispatch from Jerusalem.
75. MING PAO, 30 September 1987, p. 14; TZU LI WAN PAO, 3 October 1987, p. 5.
76. "Israel Promotes Consul Linked to Passport Case," SOUTH CHINA MORNING POST, 4 April 1988, p. 8.
77. TA KUNG PAO, 13 October 1988.
78. CHUNG YANG JIH PAO, 3 January 1989. SOUTH CHINA MORNING POST, 11 January 1989.
79. "Sino-Israel Talks Focus on Mideast," SOUTH CHINA MORNING POST, 30 September 1989.
80. LIEN HO PAO, 14 June 1990, p. 10.
81. Ting Shu-fan, "The Impact of Ceased U.S. Arms Sales on the PRC," MEI KUO YUE KAN, September 1989, p. 80.
82. CHUNG YANG JIH PAO, 3 July 1989.
83. CHUNG-YANG SHE, 23 July 1986, p. 2. In an analysis of PRC modernization efforts, a professor at Paris University states: "The reason that the PRC has chosen Israel as a partner for modernization is that Israel has direct access to United States scientific aid and Israel can then give it directly to the PRC, and they can thus reduce all research and development expenses, and do not need to import modern weapons and can still directly study high technology." 84. Wu Tzu-t'ian, "Israel's Weapons Transfers and Its Foreign Relations," *Kuo-chi Wu-ch'i Chuan-yi* (Taipei, International Relations Institute, 1988, first edition), p. 374.
85. Klieman, op. cit., p. 161.
86. CHUNG YANG SHE, 2 February 1990, Hong Kong report.
87. LIEN HO WAN PAO, 1 October 1990, p. 5.

Tao Siju Appointed New Public Security Chief

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[Article by Li Ku-Cheng (2621 6253 1004): "Tao Siju Appointed New Head of Public Security Bureau"]

[Text] On the 28th of last month [December 1990], while the Seventh Plenary Session of the 13th Central Committee was meeting in Beijing (from the 25th to the 30th), the 17th Session of the Seventh National People's Congress replaced two ministers. The 55-year-old vice minister of public security, Tao Siju [7118 7475 7467], was promoted to minister to replace Wang Fang [3769 5364], 15 years his senior; and the 56-year-old vice minister of foreign economic relations and trade, Li Lanqing [2621 1526 3237], was promoted to minister to replace Zheng Tuobin [6774 2148 1755], 18 years his senior.

Official Chinese Communists statements indicated that these two replacements were a matter of rejuvenating the ranks of cadres. Some commentators abroad also felt that it was merely a matter of replacing men who had reached retirement age, and that it had nothing to do with high-level power struggles.

However, even more people felt that their replacement was inextricably linked to factional struggles, particularly given the fact that a sensitive post like minister of public security is highly coveted by all factions.

Let us first discuss the issue of retirement age. Ever since Deng Xiaoping brought up the issue of "the four objectives for cadres" (making them more revolutionary, younger, better educated, and more specialized) in 1982, there has indeed been a serious effort to observe age limits in appointing cadres. In the last eight years, cadres at all levels have become much younger. It has been especially difficult for cadres over the age limit at the provincial and municipal level as well as those serving below the level of vice minister to be promoted. However, there are many ministers over the age of 65 who have not retired. As for "party and state leaders" (including the party general secretary, members of the Politburo, the president and vice president, the premier and vice premiers of the State Council, the chairman and vice chairmen of the National People's Congress, and the chairman and vice chairmen of the Central Military Commission), even though the retirement age has been extended to 75, everyone knows that all you have to do is glance at the list of people in these positions to find eight or 10 who are above retirement age.

In the case of Wang Fang, after Hu Yaobang fell from power in 1987, he was promoted from provincial party secretary to minister of public security in replacement of Hu Yaobang's confidant, Ruan Chongwu [7086 1504 2976]. Wang Fang was already 67 at the time and thus past the mandatory retirement age for ministers and provincial governors, yet he did not retire; on the contrary, he was promoted from the local level to the capital.

It is apparent that the promotion had nothing to do with age, but was done in response to "job requirements."

Why was it necessary to transfer Wang Fang to Beijing? In order to protect the central leadership. The Ministry of Public Security has 13 specific areas of responsibility, one of which is to "organize and carry out security operations for party and state leaders as well as important foreign visitors." This work is generally overseen personally by the minister of public security, while the other areas are the jurisdiction of the vice minister.

Wang Fang has been in public security for a long time. As long ago as the War of Resistance Against Japan, he was involved in security work in the military when he joined the 8th Route Army as a young teenager. Since that time he has always been in public security work, serving as head of the security detachment in a certain brigade and as head of the Security Department of the central Shandong Military District. Since 1949, he has served as head of the Hangzhou Municipal Public Security Bureau and as head of the Zhejiang Provincial Public Security Department. Because the central leadership often spends vacations and holds meetings in the area around Suzhou and Hangzhou, Wang Fang had ample opportunity to come in contact with these powerful leaders. His career prospered accordingly. He was promoted from the public security apparatus to vice governor and provincial party secretary. Although he had risen in rank, no doubt his actual responsibility was still to serve as bodyguard for members of the central leadership.

When Wang Fang was promoted from his position as secretary of the provincial party committee to replace Ruan Chongwu as minister of public security in 1987, he had no work experience at the central government level. Although he had risen yet higher in rank, his actual responsibility remained the same—to look after the security of the members of the central leadership. At that time, his promotion was described by foreign news services as "the most significant personnel change in the wake of Hu Yaobang's fall from power."

So who was responsible for Wang Fang's promotion? There are many different opinions regarding this question. Most commentators believe that such veterans of the justice system as Peng Zhen, Chen Pixian, and Jiang Hua promoted Wang Fang and expected him to deal vigorously with the student movement. The reason why Ruan Chongwu fell from power is because he carried out the orders of Hu Yaobang and failed to act forcefully against the powerful student movement of late 1986 and early 1987.

So what happened? Only two years later, when the even more powerful student movement of 1989 occurred, Wang Fang committed the same error as Ruan Chongwu by obeying the orders of Zhao Ziyang, nominally the highest ranking party leader (Ruan, in like manner, had followed the orders of Hu Yaobang). He failed to act forcefully against the student movement, and some even

suspect that he deliberately let democracy activists go free, so today he has fallen from power.

Li Peng Looks Favorably Upon Tao Siju

One thing is worth pondering: How is it that Tao Siju, who has been vice minister since 1983, not only managed to distance himself from the ministers who have fallen from power during this time period for failing to "put down the student movements," but even managed to get promoted? The public security organs, procuratorial organs, and people's courts have undergone a purge since the 4 June incident, and this purge has been especially thorough in the People's Armed Police, yet Tao's position has remained solid. Li Peng even praised Tao Siju in his proposal for the ministerial change, stating that Tao Siju "has long been involved in political and legal work, is familiar with public security procedures, has an acute ideological sense, works hard, and is a very appropriate choice for minister of public security."

There are two possible explanations of the riddle of Tao Siju's promotion.

1. Perhaps he was not involved in the 4 June incident; perhaps, in spite of being involved, he received strong backing from powerful oldtimers and was thus forgiven by the hardliners; or perhaps he incriminated his former bosses after 4 June, thereby achieving merit and gaining promotion; finally, he may have shared the views of Li Peng regarding the 4 June incident. Whatever the case, the 4 June incident must be accounted for. Anyone who wishes to be promoted must deal with the issue.

2. Tao Siju is very well suited to serve as minister of public security because of his age, his specialized knowledge, his resume, his backing, etc.

Special Connections Have Always Played a Role in the Promotions of Tao Siju

Tao Siju, born in 1935 in Jingjiang (Jiangsu Province), is from the same area as party Secretary General Jiang Zemin. Jingjiang County is on the northern bank of the Chang Jiang about halfway between Shanghai and Jiang Zemin's hometown of Yangzhou.

Tao Siju's rising fortunes are undoubtedly linked to this hometown connection. Tao Siju enjoys very close relations with Li Xiannian, and the relationship between Li Xiannian and Jiang Zemin is quite unusual. Jiang Zemin was once rumored to be Li's son-in-law. Li and Jiang's adoptive father, Jiang Shangqing [3068 0006 7230], had been close war buddies in the New 4th Army. When Jiang Zemin was in charge of the government in Shanghai, he played host to Li every time the latter went there, and relations between their two families were very intimate, which is why the rumor about the son-in-law relationship arose.

Since Tao Siju became vice minister of public security in 1983, his main duty has been to accompany "party and

state leaders" on trips abroad, during which he has been in charge of security work. The records show that he had accompanied Li Xiannian with particular frequency, as I shall list below:

1. In March 1984, in his capacity as vice minister of public security (as is the case for all later trips), he accompanied "President" Li Xiannian on an official visit to Pakistan, Jordan, Turkey, and Nepal.

2. In August of that same year, he again accompanied Li Xiannian on an official visit to Romania and Yugoslavia.

3. In March 1985, he accompanied Li Xiannian on a visit to Burma and Thailand. In July, he again accompanied Li Xiannian on a visit to Canada and the United States.

During Li Xiannian's tenure as president from June 1983 to April 1988, Tao Siju served as his official bodyguard every time he went on an official visit abroad. From this it is apparent that there is an unusual relationship between the two of them. It is reported that Li Xiannian put in a good word and played a role in Tao's recent promotion. It is clear that there is more than just a working relationship between Li and Tao. In politics at that level, there is no such thing as a pure working relationship. The usual situation is that senior leaders have the power to choose their own secretaries, retainers, and even their highest level assistants. Once these people come within the camp of a particular senior leader, they become a member of that person's faction, and they are looked after in every way. When it is time for promotions and raises, the phenomenon of a senior leader putting in a good word or writing a note in favor of a particular underling is an accepted standard practice in high-level circles. Tao enjoys the good graces of Li, who has in turn connected him with Jiang Zemin. His route to further promotion has been clear sailing since that point.

An Appropriate Choice for Bodyguard

It has been almost two years since Jiang Zemin became general secretary, but he has yet to establish his own corps of supporters. Recently the "Jiang core" has worked vigorously to promote a band of followers, primarily from Shanghai and his home province of Jiangsu, as well as the nearby provinces of Zhejiang and Anhui. He has also been working to promote those who have worked under him and those who have aligned themselves with his policies in the hopes of forming a "Shanghai gang." Tao Siju fits into this group nicely, and his post is extremely important. When Zhao Ziyang first came to power, he brought Wang Fang, a formidable member of Peng Zhen's justice system, into his own camp; today, it is inevitable that Jiang Zemin, in order to preserve his own security, should work to win over Minister Tao.

Tao Siju joined the Communist Party at age 14. At 16, he was sent for training at the "Central School for Security

Cadres." Later, he was sent to the Beijing Foreign Language Institute to study English, from which he graduated in 1959. He was only 24 years old at the time, and was tapped by the public security system for special attention. Because of his youth and the fact that he understood English, Tao was promoted rapidly, serving as an assistant section in the Ministry of Public Security, as a secretary in the Central Military Commission's General Office, and as assistant chief of the Public Security Division. When he was promoted to vice minister of public security in 1983, he was only 48 years old, and met all the "four objectives" for cadres that had been mentioned by Deng Xiaoping. For this reason, when principal responsibility for the foreign visits of "party and government leaders" was handed over to him in his second year in that post, it signified that he would eventually take over the reins at the Ministry of Public Security.

'Secrets' of Chemical Defense Force Revealed

91P30116A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 220, 16 Jan 91
pp 30-34

[Article by Jin Bo (6855 1591): "Revealing Secrets of the Chinese Communist Chemical Defense Forces"]

[Text] Chinese Communist Military Hides a Special Branch of Troops at the Grassroots Level: The Chemical Defense Forces

In the deep desert regions of China's interior, among different levels of troops, there exists a little known special branch of troops—the Chemical Defense Troops.

Today, along with the development of nuclear industry, the tense changes in the war in the Middle East, and the incessant movement of superpower troops, the chemical defense force and chemical defense capabilities of China's military have also captured people's attention. Not long ago, this writer was invited to attend a ceremony commemorating the 40th year since the establishment of China's Chemical Defense Troops. There he was able to learn of some of the unknown achievements in the 40 years of China's chemical defense force.

During the Hundred Regiments Offensive, Japanese Troops Sprayed Toxic Chemicals at the Chinese Troops

Chinese Communist chemical defense professionals received their earliest training under Kuomintang troops.

In the second period of KMT-CPC cooperation, the Chinese Communists sent six people—Luo Yuru, Liu Yunfu, Ouyang Ting, Zhang Lianku, Huang Lin, and Zhou Yongguang—from the Anti-Japanese University to attend the first chemical defense training class held by the Wuhan KMT Military Political Bureau. Afterward, the first fendui of the Anti-Japanese University troops formed a chemical studies team, and Yanan and other areas set up many chemical defense classes.

In the famous 1940 Hundred Regiments Offensive, Japanese troops sprayed large amounts of blister agents in the Bu County area. The chemical squad of the 8th Route Army's 129th Division immediately went to the toxic area and engaged in investigation, prevention, and elimination work, thereby lessening the loss of civilian life and property.

The Chinese Communist chemical defense force—which since the founding of the PRC has been one of the seven large service arms under the General Staff Department—was born in the tortuous campaigns of the Korean war.

In 1950, after the U.S. troops lost the advantage on the battlefield, the commander of the UN forces at that time, General MacArthur, once proposed to the U.S. Congress to use the atomic bomb against China and to use chemical warfare.

The Birth of a New Branch of Troops

General MacArthur's proposal was subsequently rejected by high levels of the U.S. Government. However, with their eyes on future conflicts, the Chinese military, while preparing the combined operations capability of certain branches of the armed forces, were forced to prepare a defensive capability against nuclear, chemical, and biological weapons to prevent future calamity. Therefore, in December 1950, Mao Zedong and Zhou Enlai personally approved the establishment of a chemical defense school, thus opening the curtain on a new branch of Chinese troops.

In 1955, the Military Commission Decides To Establish the Chemical Defense Branch

In 1954, the General Staff approved establishment of a chemical defense research institute. In April 1955, the Central Military Commission decided to set up a chemical defense department. The director at that time, Su Yu [4725 5940], personally took up the responsibility for organization and establishment, and Zhou Enlai nominated Zhang Nai(Nai)geng [1728 0035(6621) 2577], Yanjing University chemistry department professor and the first principal of the Chemical Defense University, as the first director of this department.

The period from 1950 to 1955 was the initial period in the creation of the chemical defense force. After establishment of the chemical defense school, some of the field armies began to establish chemical defense fendui. In February 1951, the Northeast Military Region's 3d Tank Division set up the first chemical defense company in the entire army. After 1952, the General Staff Department of the PLA [People's Liberation Army] and each Military Region subsequently established chemical defense departments. A unified structure of chemical defense departments at all levels below the military region level as well as chemical defense fendui at the PLA's army and division levels were established one after another. The chemical defense forces of the Navy and the Air Force also gradually formed systematically.

Training of the Army's "three defenses" (nuclear defense, chemical defense, biological defense) and specialized chemical defense training were expanded everywhere.

At Yijiangshan Island, the Flamethrower Company Displays Its Operational Talents for the First Time

On the Korean battlefield, work done to oppose the U.S. Army's toxic gas and biological warfare greatly advanced the construction of the Chinese Chemical Defense Troops. The experience of voluntary troops in organizing chemical defense of the masses provided rich experience for development of the Chinese Chemical Defense Troops. In 1955, during the operations to liberate Yijiangshan Island, the Army's first flamethrower company displayed its talents for the first time and accomplished with distinction its task of accompanying the infantry to destroy the enemy.

The period from 1956 to 1960 saw the Chemical Defense Troops enter a stage of regular development. In this period, the Central Military Commission confirmed the guiding ideology of the development of the Chemical Defense Troops and sped up development of this service arm. Chemical defense educational organs and research and development organs all showed some progress, the troop chemical defense educational training was comprehensively expanded, and thus the nuclear and chemical defense capability of the entire Army gained a certain foundation.

The Chemical Defense Troops' golden age was from 1961 to 1965. In this period a complete Army chemical defense support system was established. This included different levels of chemical defense departments from the headquarters, military regions, and military branches to the PLA army and division level; directly subordinate chemical defense departments and units, with their subordinate chemical defense and flamethrower fendui; instruction and training and research and development organs at all levels; and chemical defense equipment warehouses and repair centers. The Military Commission also promulgated, one after another, "Instructions for Combined Army Preparations Against Nuclear, Chemical, and Biological Weapons," "Regulations on Chemical Defense Combat," and other regulations. Thus, basic principles and a foundation were laid for nuclear, chemical, and biological warfare training and combat operations for the entire Army.

After 40 years of hard work, today's Army has formed a protection system based on protection by the masses with specialized troop support as the backbone. The combined Army has a protective capability under nuclear and chemical conditions, and the specialized troops have a definite protective capability. The chemical defense school of yesteryear has become the cradle of Army chemical defense talent—the Chemical Defense Command Engineering Institute. Furthermore, with its strength in fostering specialized skills and the completeness of its courses, it has entered the ranks as Asia's first,

and the world's third-largest chemical defense institute. In these last few years, the masks manufactured by this institute have already met world standards.

Under a Mushroom Cloud, Mao Zedong Puts Forth a Question

On 16 October 1964, China's first mushroom cloud swelled out from a sea of flames and pushed into the atmosphere. However, while everyone was jumping for joy, Mao Zedong calmly asked, "Is it or isn't it an atomic explosion?" Zhou Enlai immediately questioned the command at the site: "Can you really confirm that this was a successful atomic bomb explosion?" Not a half an hour later, data from the chemical defense wired remote-control group, led by Senior Captain Wang Jian, were reported to the command post; on-site commander General Zhang Aiping immediately relayed the earliest obtained data regarding the rate of dispersion of surface radiation to Mao and Zhou, thus confirming the success of China's first nuclear test.

Earlier, in 1962, before China's first nuclear test, the Central Military Commission transmitted to the chemical troops the tasks of nuclear test safety precautions, nuclear radiation technical measurement, and the use of radiochemistry to determine nuclear blast equivalent sampling.

Opening Up the Vast Gobi

In May 1964, under the command of General Bi Qingtang, vice director of the Chemical Defense Troops, approximately 700 chemical defense officers and troops tasked with experimentation responsibilities carried many types of newly made technical equipment into the vast Gobi Desert. They were deployed from Anxi, the famous "Storehouse of the World's Winds," in the east to the unpredictable Luobu Bo in the west; from Lenghu, named for its frigid weather, in the south to the Xingxing Gorge, where the weather is always changing, in the north.

On the day the first atomic bomb was exploded, in order to ascertain the level of contamination at the explosion site as well as the amount of radiation that personnel might be exposed to, Lieutenant Colonel Ge Caifu led an inspection fendui to the explosion area immediately after the explosion. With radioactive clouds above their heads and thick dust at their feet, they worked in shifts for 10 days. They effectively grasped the circumstances of dispersion of radiation contamination on the ground; they contained the contamination at the fringes; and they obtained a large quantity of salient data. In all, they made great contributions to safety protection and technical measurement.

Retrieval of 10 Million Characters of Firsthand Material and Effect Data

The 2d Company of the Lanzhou Military Region's Chemical Defense Troops, which had been operating in

downwind positions, opened for the first time the passage through the nuclear site from Dunhuang to Luobu Bo; in the swirling sands of the vast Gobi Desert, they laid eight lines of operation; they established almost 1,000 single-line operations points; they obtained approximately 1 million items of data; and they provided almost 10 million characters of firsthand materials for the Chinese science and technical databases, gaining several hundred thousands items of effect data.

According to the statistical analysis of the concerned Chinese department, at present, Chinese and military documents and teaching materials regarding standards of radioactive fallout as well as health, military affairs, and research and development—all such materials which involve data and conditions of nuclear testing in downwind regions are for the most part the product of the sweat and blood of the 2d Company of the Chemical Defense Troops.

How Will China Deal With a Sudden Incident?

In today's world, along with the continuous development of the nuclear and chemical industry, nuclear incidents have increased nonstop. Therefore, nuclear and chemical emergency relief has caught world attention everywhere.

In the summer of 1960, a container at a Beijing paint factory exploded. More than 800 people showed signs of poisoning. Under orders, the Beijing Military Region's chemical defense force dealt with the site of the incident, and in seven days was able to move to a safe spot the harmful materials from a piece of earth several hundred square meters in area and 120 centimeters deep.

In 1979, a container holding liquid chlorine at an electrochemical factory in Zhejiang exploded, leaving 59 people dead, more than 800 people poisoned, and causing direct losses of more than 3 million renminbi—this was China's largest chemical leak incident since the founding of the PRC. The people's militia chemical defense force of this factory played an important role in suppressing the spread of the incident, organizing relief, and eliminating aftereffects.

After the 1976 Tangshan earthquake, more than 1,000 Chemical Defense Troops and more than 100 types of specialized technical vehicles entered the disaster area and took up responsibility for eliminating toxic bacteria over a wide area, providing water, handling sanitation, and performing other safety tasks. As a result, there was miraculously no great epidemic in Tangshan, and the occurrence rate of epidemic disease was even less than before the earthquake.

Training Daya Bay Nuclear Power Plant Emergency Personnel

In the process of constructing the nuclear power plants at Taishan and Daya Bay, the chemical defense troops simultaneously trained a group of specialized emergency relief personnel.

At present, Chinese Chemical Defense Troops have achieved great advancements in the study of "handling urban chemical incidents."

At the Beijing Chemical Institute there are 10 scientific research projects regarding "prevention and management of leaks at chemical factories." If an incident occurs, the Chemical Defense Troops can ascertain the scope of contamination and the level of serious harm within 40 seconds, and then designate the emergency relief measures. Besides this, the Chemical Defense Troops also take care of the inspection of state import and export food products, water contamination detection, and other work.

"Demon-subduing troops" is the title given to the Chemical Defense Troops on their 40th anniversary by the former vice defense minister, General Xiao Ke. An insider says: In this name there is a blessing, and furthermore there is praise of the Chemical Defense Troops' special role.

Estimates of the Future From Deputy Chief Han Huaizhi and From the New Chemical Defense Chief

At the celebration commemorating the 40th year since the founding of the Chemical Defense Troops, Han Huaizhi, deputy chief of the General Staff, Han Huaizhi said, "The chemical defense troops are an important force in modern combined warfare, and are the backbone of the Army's defense against nuclear and chemical weapons. Both in times of war and in times of peace, these forces will have an important position and role. In future wars, the danger of nuclear weapons will exist as always, while the threat of chemical weapons will be even more real. Along with the development of socialist economic construction, in regard to emergency rescue in nuclear incidents, chemical defense forces will be the first to be affected and will have an unshirkable duty. The chemical defense undertaking will hold an important position in military construction. As long as the threat of war exists, and as long as the world's nuclear and chemical weapons are not withdrawn from the historical stage, we cannot relax in our chemical defense construction for even one day."

Han Huaizhi instructed the chemical defense departments at all levels to implement the military construction ideology for the new period: stand firmly in the present and focus on the future, play close attention to the situation of the international struggle, complete chemical defense safeguard preparations to cope with limited warfare and sudden incidents, appropriately meet the requirements of future warfare, stand firm in national and military affairs, start with the practical, correctly confirm the direction and focus of the development of chemical defense equipment and research and development, and ceaselessly perfect a chemical defense equipment system with Chinese characteristics.

Newly appointed minister Lu Fangzheng transmitted the Chinese Communist's principles and future goals for chemical defense to all the officers and troops. These

were: In the new historical period, chemical defense construction must shift from focusing on emergency measures for dealing with a nuclear war to long-term construction focusing on dealing with many kinds of war. Taking modernization as the core, enhancement of overall defense capability as the target, instruction and training, equipment research and development, and theory research as the focus, it must gradually perfect the safeguard system which encompasses the integration of the army and the people, the integration of the branches of the army and the integration of peacetime and wartime. It must positively serve the strengthening of the modern national defense force, serve combined warfare, and serve socialist construction.

Gulf War Highlights Importance of Modern Weaponry

91CM0280A Hong Kong TANGTAI
[CONTEMPORARY] in Chinese No 62, 2 Feb 91 p 10

[Article by Hsing T'ien (0483 1131): "The Lesson of the Gulf War for the Chinese Communists: The Human-Wave Strategy Cannot Overcome Modern Science and Technology"]

[Text] The current Gulf war has elicited great interest in high-ranking military circles in China. It is a piece of living teaching material.

The Combat Use of Modern Weapons

Given the fact that aerial attacks have been carried out for 10 days already and the ground war has yet to begin, I estimate that the Gulf war will last at least two months. During the war, the most advanced weapons of Europe and the United States will be displayed on the battlefield. Electronic communications will play a key role, and will even be used as jamming weapons to break down the enemy's defenses. This will be a modern, three-dimensional war involving air, sea, submarine, ground, and even satellite operations. This war will offer one of the rarest opportunities in decades to observe a large-scale military operation.

My purpose here is only to compare China's military forces with those of Iraq. They are remarkably similar. The Chinese Communists' total troop strength is 3.2 million, of which 2.3 million belong to the Army, 300,000 to the Navy, 500,000 to the Air Force, and 100,000 to the Strategic Rocket Forces. From this it is apparent that China's military is based mainly upon its Army. Because both its Air Force and Navy are of inferior quality, the military is therefore relatively strong in a passive role. In this regard, the Chinese military is fundamentally the same as that of Iraq.

China's Military Forces

Furthermore, the weapons of the Chinese military are also below modern military standards. The best aircraft in the Chinese Air Force, the J-7 and J-8, are on a par with the Soviet Union's MiG-21. The Army's main

battle tank is the T69, which is on a par with the Soviet Union's T62. The Navy's top ship, the Dalian-class destroyer, is on a par with the Soviet Union's Kotlin-class destroyer, but the performance of its radar and other electronic weaponry is substandard, so it is not highly suited for modern naval combat. However, China can rely upon its nuclear bombs and its Strategic Rocket Forces (also known as the Second Artillery Corps).

Thus it is not hard for us to deduce that if China were to get involved in a large-scale war against an enemy equipped with modern weapons, the war would unfold much as it has in Iraq, with a war fought on China's own territory. The inevitable result would be a huge loss of military and civilian life and property for China.

The factors that determine military strength are quality and quantity. China is not lacking in terms of quantity, but there are still many problems in terms of quality. Although one of the "four modernizations" is the modernization of national defense, and the modernization of weaponry has been listed as a priority, the results have not been outstanding. One of the results of the current Gulf war has certainly been to retrain attention upon the urgent need for military modernization.

Technological Development in Weaponry Has Been Uneven

The modernization of weaponry has involved two processes: One has involved reliance upon our own internal strength for development; the second has involved reliance upon foreign assistance. Let us first discuss China's domestic efforts. China's weaponry as well as its science and technology have developed unevenly. China does not lag behind Europe and United States in terms of cutting-edge technological development. China is capable of manufacturing nuclear bombs, space rockets, satellites, and nuclear-powered submarines, but it lacks the ability to improve the night-vision and radar systems of its jet fighters, and it cannot manufacture gun barrels for combat vehicles capable of firing more than 500 rounds of ammunition. The fact that the development of China's nuclear and conventional weapons is out of sync leaves China with a propensity to launch a nuclear war.

In the current climate, in which top priority is placed on politics, it is difficult to say whether Chinese scientists and technical specialists at home and abroad will be willing to continue working hard at research and production, but military technology is advancing by leaps and bounds; if China wastes five or six years it will be in danger of falling 30 years behind.

In the early 1980's, China worked to establish military cooperation with the United States and West Europe, importing weapons production technologies as well as such finished products as electronic equipment (radars, communications equipment, and machinery), torpedoes, and antitank rockets from Europe and the United States. For example, the main gun of the T69 is the British 105-mm L7 rifled gun. However, because of the military suppression at Tiananmen, all cooperative projects have

been cut off. China's weapons research and production have been dealt a heavy blow, and it will be all the more difficult in the aftermath to erase China's backwardness.

The current status of the Gulf war shows that technology can determine victory or defeat and reduce meaningless loss of life. Large numbers of troops and large quantities of weapons no longer constitute a decisive advantage.

There is a maxim in the Chinese military: "The greatest weapon is not an aircraft, cannon, combat vehicle, or missile; rather, it is the spiritual nuclear bomb of people armed by Mao Zedong Thought and fearless in the face of death." Let us not forget, however, that this phrase was spoken in the 1950's; now is the 1990's.

Kunming Border Inspection Officers Refuse Bribes

91CM0263A Kunming YUNNAN RIBAO in Chinese
5 Jan 91 p 2

[Article by Shi Wei (4258 0251): "The Armed Police Officers and Men of the Kunming Border Inspection Station Are Free From Corruption—Remaining Uncontaminated at the Airport"]

[Text] The Armed Police officers and men of the Kunming border inspection station constantly stress the need for their force to remain honest and upright, vigorously strengthen their education in professional ethics, strictly enforce state laws and regulations and police disciplines, and ensure that they "live at the airport but remain uncontaminated."

Kunming's Wujiaaba Airport is the only international and the biggest domestic airport in Yunnan Province. At this window to southwest China, the Armed Police officers and men of the Kunming border inspection station are in charge of the security and border inspections of passengers coming in and going out of the border. In order to preserve the honesty and integrity of police officers and men and increase their "immunity" from corruption, the station CPC Committee has devoted great efforts to the professional ethics education of the police and formulated "inspectors rules for law and discipline enforcement." In view of new characteristics and problems in inspection work, they have ensured that they "constantly recite the rules, sound the alarm, and check the system" so as to raise the consciousness of officers and men to resist corruption and prevent an unexpected turn of events. In March 1990 a Guangdong passenger came to the house of Li Jinxue [2621 6855 1331], chief of the inspection section. He took out a stack of renminbi and said to the chief: "Sorry to bother you, but would you please get me a airplane ticket to Hong Kong? This 300 yuan is for your trouble." Chief Li sternly refused the bribe. On 8 December 1990, inspector Liu Mingshui [0491 2494 3055] found that a passenger's entry visa had expired. This passenger took out a stack of 50-yuan bills and gave it to him. Liu Mingshui turned it down at once. Since the beginning of 1990, over 20 bribes in the amount of 10,000 yuan have been turned down by the

Armed Police of the Kunming border inspection station who are praised as the "qualified guards of airports."

Military CPC Committee Observes 'Five Nots'

91CM0263B Kunming YUNNAN RIBAO in Chinese
10 Jan 91 p 1

[Article by Liu Zhongfu (0491 1350 4395): "A Certain PLA CPC Committee Strictly Observes the 'Five Nots' Regulations—What Causes Entertainment Expenses To Drop Substantially"]

[Text] The CPC Committee of a certain PLA [People's Liberation Army] artillery unit stationed in Kunming gives receptions in strict accordance with the guidelines of the directives of the central government and the military region on strengthening the building of a clean government. In the past year or so, the leading body of the CPC Committee strictly observed the "five nots" regulations and set an example for correcting party style and preserving honesty.

After this unit moved from a certain county to Kunming City where it is like spring all year round, its reception station had to receive many leaders and cadres of higher levels or from local governments who came to inspect work or express sympathy and solicitude. It also had to receive many transferred and retired personnel of the original unit. Due to the influence of unhealthy practices in society, this unit spent a lot of money to entertain these guests. At the beginning of last year, the unit's CPC Committee studied how to implement the guidelines of the directives of the Discipline Inspection Commission of the Central Military Commission and of the military region on resolutely checking the unhealthy tendencies of using public funds to entertain guests and buy gifts and of accepting gifts and attending banquets. During the study, the committee examined existing problems in light of reality and made the "five nots" regulations. The "five nots" are: not using public funds to give banquets, instead welcoming all guests with a cup of tea; not using public funds to buy gifts; not sending people to welcome, escort, or bid farewell to passing leaders; not using government vehicles for sightseeing purposes; and not sponsoring special dinner parties and movie viewings. After promulgation of these regulations, the unit CPC Committee checked on implementation once a month and acted strictly according to the regulations. After the Spring Festival of last year, General Wan Haifeng [8001 3189 1496], political commissar of the former military region, and Lieutenant General Fu Quanyou [0265 0356 2589], commander of the former military region, came to the unit to bid farewell to officers and soldiers. Some people wondered if they should make it an exception and give a reception. The members of the CPC committee thought that since they made up the rules, they should strictly abide by them. Political commissar Wan and Commander Fu in particular made strict demands on themselves and had standard meals.

The work style of the unit CPC Committee which acted strictly according to the regulations was commended in a circular issued by the CPC Committee and Discipline Inspection Commission of the military region.

Chengdu MR Sponsors Training Classes in Yunnan

91CM0263C Kunming YUNNAN RIBAO in Chinese
11 Jan 91 p 1

[Article by Yang Tongshi (2799 4827 2514) and Li Haiqing (2621 3189 3237): "The Yunnan Class of the Brigade and Regiment Political Department (Section) Director Training Course of the Chengdu Military Region Begins"]

[Text] In order to implement the resolution of the Central Military Commission on "regarding party building as the main line and strengthening military political building in an all-round way," the Yunnan class of the brigade and regiment political department (section) director training course of the Chengdu Military Region [MR] began in Kunming on 10 January. Some 124 political department (section) directors signed up for the course.

Focusing on building and penetrating education, paying attention to helping and raising standards as a whole, and making great efforts to make a success of building grassroots party branches are the "main lines" set forth by the Central Military Commission for the political work of the armed forces as a whole. In order to implement the resolution of the Central Military Commission, the Chengdu MR decided to sponsor brigade and regiment political department (section) director trainings in Yunnan, Sichuan, and Tibet. The Yunnan class formed a three-in-one teaching group consisting of university and college professors, government officials, and military leaders in charge of political work. The entire training will last 10 days. In the first phase of the training, brigade and regiment political department (section) directors will be organized mainly to intensively study the theories of Mao Zedong, Deng Xiaoping, and other proletarian revolutionaries of the older generation on strengthening the building of military party committees, the "Outline for the Building of Grassroots Military Units," the "Summary of the Political Work Conference of the Whole Army," and the guidelines of the forum of the whole army on strengthening the building of grassroots party branches to lay a foundation in the theory of party building. In the second phase, students mainly will carefully research and discuss such issues as imperfect organizations, unenforced systems, and mediocre leadership in the building of grassroots party organizations, find out the causes of the problems, and work out countermeasures. In the third phase, students will mainly examine, review, and improve on what they have learned.

Shao Nong [6730 6593], deputy political commissar of the Chengdu MR, spoke at the opening ceremony of the

Yunnan class. Responsible persons of various major units stationed in Yunnan attended the opening ceremony.

PLA Unit Helps Improve Kunming Villages, School

91CM0263D Kunming YUNNAN RIBAO in Chinese
12 Jan 91 p 3

[Article by Xie Qicheng (6200 0366 2052): "'Three Villages and One School' Show New Face—A Story About a Certain PLA Unit in Kunming Cherishing and Helping the People"]

[Text] Whenever the officers and soldiers of a certain PLA [People's Liberation Army] unit are mentioned, the people of Han, Hui, Yi, and Pumi nationalities in Xinjie Township of Chongming County would hold up their thumbs in approval and say: Thanks to our beloved Liberation Army, three villages and one school have put on a new face.

The school here refers to the Shuihai School of Chongming County, and the three villages refer to Fenshuigou, Zhangjia, and Zhaojia villages. They are located in the northeastern part of Yunnan where the three counties of Chongming, Xundian, and Yiliang meet. They have poor transport facilities, their economy is backward, and the development of their educational undertakings is slow. After a certain PLA unit moved into this area, the officers and soldiers of this unit decided to collaborate with the people to change the backward appearance of this area.

To help the poor, we should first help the ignorant. The officers and soldiers felt that a main cause of poverty here is backward education. So they took the initiative to contact the Shuihai School to carry out activities to build a modern school with the joint effort of the military unit and the people. In the early 1980's the school planned to build a teachers' dormitory. Hearing this, the unit immediately sent out vehicles and people to drive 1,000 km on the village roads, helping the school transport building materials. Under low ceilings, the school's classrooms used to be dark and damp and had problems with water supply. The unit took 7,000 yuan from its farm and sideline production income, and officers and soldiers donated 1,500 yuan. With this money, the unit installed electricity and tap water lines and electric bulbs for the school free of charge. While creating a good working, studying, and living environment for the school's teachers and students, the officers and soldiers of this unit considered the training of a new generation with communist ideals as the central task of building a modern school. Through such methods as suppling after-school activity councilors, sponsoring forums, and inviting people of outstanding achievements or service to give reports, they introduced such heroes and models as Lei Feng and Zhu Boru and their stories to teachers and students; talked about the selfless spirit of "sacrificing myself to bring happiness to a billion people"; and

explained the background and meaning of party flag, national flag, brigade and regiment flags, and the national emblem. They also volunteered to rebuild basketball courts, buy teaching tools and recreational devices such as horizontal and parallel bars, and donated nearly 1,000 books. Hard work in plowing and weeding yielded bumper harvests. The teaching quality of the Shuihai School improved year after year. The enrollment, consolidation, spreading, and graduation and advancement rates of this school all reached 100 percent.

In the station area, the officers and soldiers of this unit also considered helping the local people of various nationalities to break away from poverty and become rich as their own responsibility and put in a large amount of manpower, material, and financial power for this purpose. During busy farming seasons, the unit sent out 21 aid-agriculture squads of over 1,100 people to help in the labor. They established a Lei Feng emulation group which gave over 7,500 free haircuts, performed medical services over 13,000 times to prevent and treat diseases among the people in the mountainous area, and sent over 10,000 kilograms of wood, some 800 yuan of donations, and over 1,000 items of clothing to senior citizens enjoying five guarantees and to the families of military men and revolutionary martyrs. In Fenshuigou, Zhangjia, and Zhaojia Villages, where muddy ponds and manure pits had been found everywhere, military officers and soldiers collaborated with the masses to carry out many activities to clean up the environment. They filled and buried four stinky water pits, leveled four village roads totaling 3,800 meters long, and built a 1,000-meter-long "modern road." They planted 18,000 trees around the camp and the villages and on the sides of roads. They also planted 2,100 fruit trees, closed 400 mu of hills to facilitate afforestation, built a new nursery, and grew 410,000 saplings of 21 varieties of trees. Fenshuigou, Zhaojia, and Zhangjia Villages used to have

problems with water and power supply. After sinking a motor-pumped well inside the camp, the officers and soldiers of this unit voluntarily connected the water pipes to the mountain villages. Afterwards they took 15,000 yuan from their farm and sideline production income to repair a sluice gate at the reservoir dam in Jiuhaogou Village and a 2,500-meter water diversion channel made with a mixture of gravel and cement. With that money they also purchased electric wire. As a result, over 500 mu of hillside farmland has benefited and three villages ended the history of lighting with pine twigs. In order to help the masses quickly understand the party's policy of helping the people to become rich and seize the key to escape poverty and achieve prosperity, the officers and soldiers raised another 7,000 yuan to purchase three televisions, which were given to the three villages, install close-circuit televisions in 27 farmhouses, and train 39 technicians in the areas of welding, winemaking, auto repair, tractor operating, and cooking.

The joint efforts of the soldiers and the people have yielded great results. Today, the Shuihai School has changed. Fenshuigou, Zhangjia, and Zhaojia Villages have also changed. Their net income from grain, cured tobacco, and oil-bearing crops has increased from the past 24 yuan to nearly 300 yuan. Household electric appliances such as televisions, radio-recorders, and washing machines have also entered Fenshuigou Village one after another. Shuihai School has been honored as a "modern unit" and "advanced unit jointly built by the soldiers and the people" by cities and counties for three consecutive years. The three villages have also been honored as "modern villages" by counties for two consecutive years. This military unit too has won several awards from the Chengdu Military Region, including "achievement in the standardization of warehouse operations," "greening of campsite," and advanced unit jointly built by the soldiers and the people."

EAST REGION

Impact of Humanism, Anticulture Trend on Students

91CM0243A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 12, 15 Dec 90 pp 52-55

[Article by Duan Peijun (3008 1014 0689), Department of Social Sciences, Huaihai University; Xu Honghai (6079 1347 3189), responsible editor: "Effects of Humanism, Anticulture Trend on Students"]

[Text] Humanism has had powerful and profound effects on China's students. We may say that anybody who does not understand the impact of humanism would not understand the young student of our time. This article proposes to analyze and contemplate the effects of the anticulture and anticivilization trends of humanism on young students.

A. The Principal Anticulture Characteristics of Humanism

The principal anticulture and anticivilization characteristics of humanism express themselves as opposition to all cultural norms and models. They have two concrete manifestations. One is their opposition to rationality and science. The other is their opposition to morality and ethics. Thus we can summarize the anticulture and anticivilization characteristics of humanism as antirationalism and antimoralism. We can get an understanding of this characteristic by examining the thought of three principal figures, each representative of the three stages in the development of humanistic thought.

The first stage is represented by Nietzsche, a leading architect of the rise of humanism. He exalted the spirit of Bacchus and the will to power in order to exalt life and create an aesthetic life. He vehemently attacked modern Western civilization and exhibited an intense anticulture and anticivilization bent. He proclaimed, like a judge, "What we call culture, education, and civilization now will certainly stand before Bacchus, the impartial judge, one day."¹ He used the spirit of Bacchus as a weapon to condemn the assorted ills of culture and civilization, reserving his sharpest criticisms for morality and rationality.

From Christian morality, Nietzsche shifted his attack to morality and ethics in general, declaring, "I am the first amoralist."² He dedicated himself to exposing morality, arguing that "by exposing the moral man, one also exposes the worthlessness of all values that man believes in or has believed in."³ Nietzsche denounced morality in two ways. First, he claimed that "moral reality simply does not exist."⁴ So-called moral motivation is simply deception. So-called moral means are often immoral. Second, in terms of function, "so far almost every morality that has been admired, advocated, and trumpeted opposes the instinct of life."⁵ Hence it is necessary to "repudiate morality and liberate life."⁶ In Nietzsche's eyes, the realm of morality is totally devoid of truth, but

is full of fabrications, distortions, and sophistry. To obey morality will lead to the shriveling and withering of life.

Nietzsche rejected rationality and science in a similar fashion. To him, the true world that rationality tries so hard to construct does not exist. The so-called "true world" is nothing more than the product of misrepresentation of sensory evidence by rationality in a vain search for orderliness and methodicalness. Also nonexistent is pure science. This is because any science must start with a self-evident truth, that is, a kind of command-type unconditional principle. In other words, "there is simply no such thing as science without premises."⁷ Most important, science and rationality corrupt the instinct of life. Science "lacks love and does not understand any deep feelings of dissatisfaction and longing."⁸ The emphasis on logic and the disregard for spontaneity will eventually rob man of his profound, rich, and full spirituality. When reason triumphs over instinct, it will become the most dangerous force to life, hampering the healthy functioning of the instinct of life.

The second stage is represented by Sartre, who displayed his anticulture trend in two ways. 1) He rejected the existence of a universal moral code in society. 2) He denied the existence of a law of nature in society.

About the former, Sartre quoted Dostoevsky as a starting point for existentialism. "If God does not exist, then everything else is allowed."⁹ Sartre proceeded from this to elaborate his view on freedom: Since God does not exist, man is absolutely free. To put it differently, no certain universal law of morality exists to set a standard for human conduct. Man himself creates and chooses his own values and moral yardsticks. Man obeys his own choices only and not the laws of anybody else. Sartre summed it all up in his theorized language, "It is not for humanism to come up with some moral prescriptions. Its only concern is to determine what existence is. No orders will emerge from its statements."¹⁰

Sartre offered three reasons for rejecting the existence of the law of nature. First, the world is an absurd, sickening, and chaotic world with no purpose, no meaning. Clearly no law of nature can exist in the midst of such a world. Second, the world-for-us that is comprehensible and meaningful is created freely by man. The criterion of truth is set freely by each individual, which precludes the existence of universal scientific laws. Third, existence comes before essence. The fact that existence comes first suggests abandoning the essential world, abandoning essentialism. And essentialism is one of the cornerstones of scientific theory. Thus essentialism means abandoning science.

The third key figure in the development of humanism was Freud, who turned humanistic thought into psychology. According to Freudian teaching on personality, personality consists of three parts: the id, which is the expression of instinct and nonrational impulses; the ego, which represents rationality and common knowledge, and the superego, which represents morality and ideals.

Thus the relationship among id, ego, and superego is, in effect, the relationship among instinct, rationality, and morality. Freudian personality theory essentially embodies Freud's anticulture and anticivilization thought. First, as untamed passion, the id often has immoral demands and behaves irrationally. This shows that man is inherently antimorality and antirationality. Second, in the final analysis, human behavior is determined by sexual instinct. Culture and civilization are no match for instinct. Culture is at most a kind of instinct that society finds acceptable. Moreover, culture and civilization are the product of the sublimation of a repressed instinct. Culture and civilization come about at the expense of man's happiness. The two are mutually exclusive.

B. Impact of Anticulture Trend on Young Students

Humanism and its anticulture and anticivilization characteristics have affected young students in complex ways under the current set of circumstances. Because space is limited, let me explain my point by identifying a few of the negative effects.

Effect one: The status of science has declined in the minds of young students. Coupled with the misguided value system in society, this has led to a weariness with study; "long live 60 percent" is not just the slogan of a handful of students. This phenomenon can be traced primarily to the depreciation of scientific knowledge, the object of study. The depreciation of scientific knowledge has been caused by the profit motive in society. As they say about the economic distribution system, "you are better off selling tea-leaf eggs than making guided missiles." Even in the political system, scientific knowledge is not critical to policymaking, policy execution, or the people who execute the policies. Even in the realm of culture, pure scientific works, like pure literary works, have a hard time getting the market to pay attention. All this has a lot to do with the social value system shaped by social economic factors.

Note that there is another factor: the decline in the metaphysical value of science. In the minds of students, science is no longer the science of old. The reportage *Goldbach's Conjecture* described the appeal of the crown of mathematics to young college students of the 1950's. That appeal has now faded. These days science seldom inspires the kind of sacrosanctness that people used to feel about science. We cannot but blame this situation on humanistic thinking. In humanism, which is antirationality, science no longer sits on a pedestal. What is more, it has become the target of criticism and attack. The devaluation of the spiritual value of science is an important reason for the rise of study-weariness.

Effect two: The relativist attitude toward rationality has been intensified, confidence has been undermined, nonrational excesses have increased. On the one hand, scientism has drifted toward antiscentism by way of relativism. At the same time, humanism has rejected rationality with a thoroughly relativist attitude. These

two trends have made their way onto college campuses through such vehicles as books and magazines. Imperceptibly influenced by what they constantly see and hear, some students have come to adopt a skeptical, willfully selective, and even nihilistic attitude. Correspondingly, rationality has come to occupy a diminished place in their minds. A direct consequence is a weakening in the power of faith education, which is based on rational verification. Coming in the wake of the "crisis in faith" created by the decade of turmoil during the Cultural Revolution, this weakening has been intensified. On the other hand, society is changing rapidly with all sorts of problems cropping up. An overpowering sense of bewilderment is no doubt accompanied by a sense of loss of rationality. Staggering under these heavy burdens, students pour out their feelings, like Pen Xiao, or feel agitated, or seek to satisfy their senses, ultimately becoming numb, or relieve their feelings in a wild outburst. More than once have we heard the cry "Younger sister, go forward courageously" echo from one student dormitory to another, followed by a round of noisy clamor.

Effect three: Difficulty in achieving a consensus on moral values. The aesthetic life is the highest value... man is absolutely free... instinct determines everything. Such humanistic thinking that young students come in touch with amid Nietzsche fever, Sartre fever, and Freud fever has rendered almost every moral standard unjustifiable before man's life, existence, or instinct. Bestselling books on these theories have made their way onto the bookshelves of young students and quietly disarmed them morally by imperceptibly influencing them. At the same time, the tidal wave of freedom—from *Love Is Unforgettable* to *Red Sorghum*—has swept away the morality governing the relationship between the sexes even as it cleared away the feudal mentality resulting in unruly, exhilarating liberation. This has made it difficult to arrive at a shared set of moral values among young students. What is the third party? Is the behavior of the third party moral? Each person sticks to his point of view. How to assess the breakup of Zhang Yimou's [1728 5669 6180] marriage in moral terms? Everybody has his own theory. It is hard to arrive at a moral judgment shared by all.

Effect four: The standards of behavior have become lax over time and some have actually broken down. The absence of shared moral values leads inevitably to the weakening of supervision by moral opinion and the loosening of moral standards. Seldom do young students evaluate one another in moral terms. They often measure one another against such criteria as the true and the beautiful, but rarely use such moral language as "good." Going hand in hand with the weakening of moral public opinion is the relaxation of standards of behavior. It has become almost fashionable to be casual about small matters in daily life. Rules and conventions that students should comply with when they go to classes and take examinations, norms governing how one dresses and carries oneself in public, etiquette one should observe

when one interacts with the faculty and fellow students, moral codes regulating social intercourse between male and female students and dating, basic regulations on protecting public property and public health... all have slackened over time and some rules have broken down. Only after the "Regulations for Students of Institutions of Higher Education (Draft)" was promulgated did the situation improve.

C. Some Analyses and Reflections

1. Reasons Why the Anticulture Trend of Humanism Has Affected Young Students

On a subjective level, their aversion to the emasculation of Marxism by Lin Biao and the gang of four during the Cultural Revolution has made young students susceptible to the influence of humanism under a particular set of circumstances, accepting it uncritically. The so-called "theory" propagated by Lin Biao and the gang of four have two characteristics. First, they dogmatized Marxism under the banner of Marxism and used it to enslave thinking. Second, they went all-out to nurture the cult of personality, deifying an individual. The so-called "theory" was criticized during the great movement to liberate thought, particularly after the Third Plenary Session of the 11th CPC Central Committee. To a certain extent, the antidogma and antideification mentality that developed among young students during this process is similar to the antirestriction and humanism-centered characteristic of humanistic thinking. Owing to delays and mistakes in China's theoretical work, humanism became one of the main ideas students were exposed to once China opened up to the outside world. Meanwhile, our critical work has fallen far behind.

Objectively speaking, reform in the ordinary cultural study context implies adjusting and changing the original cultural norms. Reform requires us to examine existing rules critically. Humanism too seeks to criticize and even dismantle all cultural norms. In the sense that it involves the critique of existing rules, reform and the antirule trend of humanism are at one with each other. This is also one reason why humanism has been able to make inroads on the thinking of young students so quickly.

2. A Simple Assessment of the Anticulture Trend of Humanism

The impact of the anticulture trend of humanism should be dialectically analyzed. On the one hand, the critique of modern Western civilization by humanism is both profound and enlightening. And it is this critique that has given rise to its anticulture, anticivilization trend. As a challenge to all cultural norms, it entered China just as the latter was undergoing a liberation of ideas and reform across the board and objectively "made a stormy sea stormier." Its praise for the instinct of life and its opposition to all rules and restrictions objectively had a liberating effect and inadvertently undermined and destroyed the irrational rules and regulations of dogmatism, the moral precepts of feudalism, and all old rules and regulations ill-suited to socialist modernization. In

this sense it has contributed to changing the old rules and helped free young students from the straitjacket of backward rules. This is its positive aspect. But the other side of humanism is that it goes further to oppose all cultural norms, all modes of civilization. Such all-out opposition, in the final analysis, is incompatible with China's desire to create a modern socialist civilization. As reform intensifies and the reestablishment of cultural norms assumes increasing importance, the negative influence and destructiveness of humanism also becomes more obvious. This point must be made particularly clear in the ideological education of young students.

3. How To Counteract the Negative Effects of Humanism

Countermeasure one: Educate students in the dialectical development of civilization so that they gradually grasp the distinctions between the Marxist view of the development of civilization and the liquidationist view of civilization in humanism. There are three major differences. First, the development of civilization is a process whereby a civilization moves from a lower model to a higher model dialectically. The change in model thus is a qualitative change as one model replaces another; it is the reconstruction of the new model. While this process necessarily involves opposition to and destruction of the old model, it absolutely does not stop at such destruction and opposition. Instead, its focus is construction. It serves the development of the new model. Humanism, in contrast, seeks to liquidate all norms. Its focus is destruction. To abolish all rules means destroying civilization. Second, the presence of a certain tension is essential to the process of developing a new model of civilization. That is, there is a need for tightening as well as relaxation. In the revolution to achieve a new model, relaxation no doubt is predominant; the old model is criticized with the aim of dissolution. At the same time, tightening also plays an important role. For one thing, it ensures that society as a whole will not completely dissolve into chaos as the old model is being torn down, which will result in the collapse of society and the destruction of civilization. For another, the tightening helps ensure the very achievements of the revolution, thereby ensuring the construction of a new model. Humanism, which opposes all norms, in effect calls for relaxation. Its apparent resemblance to total reform will prevent any of the achievements from lasting, leaving only simple restoration. Third, the drive to bring about a new civilization should proceed from reality. China has numerous illiterates, forming a powerful nonculture army that will produce an uncontrollable illiteracy force once it combines with the tide of anticulture, with destructive consequences. So we must control anticulture thinking as appropriate and limit its destructive effects. Our strategic thinking on social development should be one of steadfastly integrating relaxation with tightening, varying their respective roles and status depending on their specific missions at any one point in time.

Countermeasure two: Strengthen basic education and training in cultural norms. After uncivilized society gave way to civilized society, man has gradually developed a number of basic cultural norms, such as respecting the elderly, protecting the young, treating others courteously, respecting people, honoring one's word, so on and so forth. Education and training in these and similar universal rules of a civilized society must be intensified to preserve the characteristics of a civilized society at all times, particularly in the era of change and reform. This is the basic guarantee that the civilization of a society in times of change will not decline rapidly as well as a tangible expression of the tightening function. Accordingly, educating students in the code of conduct cannot be relaxed for a single day.

Footnotes

1. *The Birth of Tragedy*, Nietzsche, Section 19.
2. *Selected Works of Nietzsche*, Volume 2, p. 444.
3. *Collected Works of Nietzsche*, Volume 15, p. 125.
4. *Ibid.*, Volume 8, p. 102.
5. *The Twilight of Idolatry*, "Morality Is Antinature," Sartre.
6. *Collected Works of Nietzsche*, Volume 15, p. 392.
7. *The Joyful Wisdom*, Nietzsche, Section 344.
8. *Collected Works of Nietzsche*, Volume 1, p. 453.
9. *Existentialism*, Hoffman, United States, p. 346.
10. *Being and Nothingness*, Sartre, p. 720.

Poverty Relief in Fujian

91CM0195A Hong Kong KUANG CHIAO CHING
in Chinese No 219, 16 Dec 90 pp 84-85

[Article by Jen Chen (0117 4176): "The Direction of 480,000 Poor Households in Fujian"]

[Text] Helping the Poor on the Mainland

Helping the poor has been a fashionable abbreviation in recent years on the Chinese mainland, and it is frequently seen in the press and in the red-letterhead documents of the Communist Party of China and government organizations. It refers to the government adopting measures to help peasants living below the poverty line shake off poverty, obtain adequate food and clothing, and gradually move towards healthy lives.

Xiang Nan, former secretary of Fujian's provincial party committee, is now head of the China Fund for Helping Poor Areas.

Fujian's Poverty Line

Fujian sits against the mountains and faces the ocean, and its area is "80 percent mountains, 10 percent water,

and 10 percent farmland." There are great economic gaps between inland mountain regions and coastal regions. Since opening to the outside, coastal regions took advantage of their climate and geography and achieved rapid economic development; the peasants there also grew richer quickly. However, because they had long been closed to the outside, had weak bases, and also had transportation difficulties and lacked information, inland mountain regions encountered persistent difficulties in economic development. In 1985 Fujian Province determined its poverty level to be a net annual per capita income of 200 yuan renminbi [RMB] and a per capita food grain provision of 400 jin. Families or regions with living standards below these levels were classified as families or regions in poverty. Since then, large-scale work has been done to help the poor. Now, five years later, what has helping the poor in Fujian achieved?

480,000 Families in Poverty

Poverty was then widespread in Fujian. Of the province's 932 townships, 204 had net annual per capita incomes of less than 150 yuan RMB. Within these townships, there were 480,000 families—or 2.42 million people, 10 percent of the province's total rural population—which had net annual per capita incomes of less than 200 yuan RMB. Of these families, 60,000 families, or 300,000 people, were classified as living "in extreme poverty."

Fujian's impoverished regions are situated mainly in the Jiufeng and Tailao mountain regions in eastern Fujian; the Daiyun mountain region in central Fujian; the southern part of the Wuyi Mountains in western Fujian; and on Pingtan Island, which is plagued by perennial dust storms. Without the timely adoption of measures to help those regions, the phenomenon of the poor getting poorer and the rich getting richer would have been exacerbated, which would not only have obstructed the process of reform and opening to the outside, but also would have affected the entire economy, leading to various negative consequences.

Changing Peasants' Traditional Outlook

In the words of officials in Fujian Province's Office for Helping the Poor, the large-scale work helping the poor that started in 1986 could be characterized as "omni-directional and three-dimensional."

In the past five years, the province sent successive contingents of over 10,000 cadres from party and government institutions to impoverished regions to specifically work helping the poor. These "intellectuals," who usually spent most of their time in offices, came to rural mountain areas to visit villages and families, talk to the poor, and inquire about hardships; some even ate and stayed with the peasants. They were shocked by the peasants' hard lives, which aroused their sense of responsibility, and they became determined to adopt all possible measures to help peasants shake off poverty. One

could say that they devoted all their thoughts to helping the poor. In addition to sending cadres to the countryside, the province also formulated many preferential policies, including giving priority to project investments and reducing tax and financial burdens so that impoverished regions might advance with as little weight on their back as possible.

The work of helping the poor in Fujian Province has emphasized enhancing the "lifeblood-creating abilities" of impoverished regions. This refers to the fact that not only are impoverished regions and families given economic relief, they are also given scientific and technical knowledge so that they can leave behind their previously undiversified and closed mode of production and seek new production and management methods. Thus they can shake off poverty as soon as possible.

To most Chinese peasants, a "comfortable" life has been a dreamed-of ideal; to peasants in Fujian's impoverished regions, the most urgent matter is obtaining food and clothing. After five years of work, there have been prominent achievements in helping the poor in Fujian Province. At present the problem of food and clothing for peasants has been basically resolved in 95 percent of the province's impoverished regions. According to statistics, in 1989 the net per capita income for peasants in Fujian's impoverished counties was 567 yuan RMB, an increase of more than 80 percent over 1985. The rate of economic development for impoverished regions has increased markedly, and the economic structure has also become more rational. In 1989 the gross value of industrial and agricultural output of all impoverished counties in the province reached 3.899 billion yuan RMB, an increase of more than 60 percent over 1985 levels. The proportion of the value of industrial output to the gross value of industrial and agricultural output also increased to 56.87 percent, up from 45 percent in 1985. With help from government departments and scientific and technical personnel, many impoverished mountain regions fully utilized their natural resources and developed multiple lines of business, such as planting trees for afforestation, opening tea plantations, and cultivating mushrooms. Anxi County, the area where the famous "Tie Guanyin" tea is produced, had been notoriously poor; in recent years, thanks to work teams that helped the poor, peasants exploited their advantage of being a tea-producing area. They not only grew and processed tea, but also energetically developed advanced tea processing, and improved the quality and packaging of tea so as to enhance Wulong tea's competitiveness in the international market. At the same time they set up enterprises with foreign investment, and employed idle rural labor. Today most peasants in the county no longer worry about food and clothing; creating a "comfortable" life has become their new goal.

Improving the infrastructure is also a key to shaking off poverty. In recent years Fujian Province has increasingly emphasized building the infrastructure of impoverished regions. Now the province's 17 impoverished counties have all opened dial telephone service, and several

counties even provide direct dialing for long-distance calls. Water, electricity, transportation, and educational and health facilities have also been greatly improved.

Today most peasants have grasped the concepts of commodities and competition. They are no longer satisfied with working on a few mu of farmland. By raising their own funds and taking full advantage of the government's preferential policies, they are establishing enterprises, running transport businesses, opening new stores, and trying to transform themselves from "poor" into "rich" through hard work.

Fujian Province Winning Battle Against Smugglers

*OW2803175291 Beijing XINHUA in English
1530 GMT 28 Mar 91*

[Text] Fuzhou, March 28 (XINHUA)—The anti-smuggling task force in southeast China's Fujian Province has investigated and prosecuted over 16,700 smuggling cases involving goods value at over 521 million yuan (100 million U.S. dollars) during the past two years.

Task force officials released these dramatic statistics during an anti-smuggling conference held recently in the province. Authorities also recognized 234 people for their outstanding contributions to the campaign.

Fujian's 3,000 kilometer coastline runs the length of the Taiwan Straits which lie between the province and Taiwan Island. While the province has long been infested with smugglers, their activities increased noticeably in recent years.

When smuggling gangs, who were sometimes armed, were found to be on the increase in the region two years ago, the provincial authorities initiated the coastal anti-smuggling task force.

Zhejiang Party Committee Hosts Religious Work Forum

91P30115A

[Editorial Report] On 12 February the Zhejiang Provincial CPC Committee held a forum for religious circles to discuss "how to completely implement the party's policy of religious freedom." The meeting was reported in ZHEJIANG RIBAO, the provincial party committee's official newspaper, on 13 February, page 1, by staff reporter Ying Jimin. Forum participants included representatives from the following provincial religious organizations: the Christian "Three Self" Patriotic Society, the Christian Association, the Catholic Patriotic Society, the Buddhist Association, the Hangzhou City Islamic Association, and the Hangzhou City Taoist Association.

The meeting, chaired by deputy party secretary Liu Feng, was described as held in "an extremely harmonious atmosphere" in which "everyone held intimate discussions" on the situation in the various religions.

Reviewing the province's record on religious work, Liu Feng said Zhejiang's efforts in religion have generally been good. Since 1978, under the party leadership at various levels, Zhejiang has carried out policies on religion that have inspired the enthusiasm of religious circles and have allowed them to fulfill their role in provincial unity and development.

Liu Feng identified the following tasks for the party and government: "Resolutely and unswervingly implement the policy on religious freedom, protect the religious freedom of citizens, protect normal religious activities, and protect the lawful rights and interests of religious circles."

He identified as tasks for religious circles: "Resolutely and unswervingly uphold the leadership of the CPC,

uphold socialism, love the country and obey its laws, firmly and independently run and manage churches, and carry out religious activities firmly within the framework of the Constitution, laws and regulations, and policies."

Liu warned against what appears to be "friendly foreign interaction in the religious sphere": "We must resolutely resist the attempts of hostile foreign forces to use religion to infiltrate us. This kind of infiltration seeks to subvert China's regime and socialist system and to destroy the unity of the motherland." It seeks to "control China's religious and patriotic organizations and religious affairs" and to "establish illegal religious organizations and carry out illegal religious activities in China."

Vice Minister Optimistic on Coal Trade With Taiwan*91CE0299A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese No 2, 14 Jan 91 p 27*

[By Li Ren (2621 0086)]

[Text] The rapid development in the past two years of the coal trade between the two shores has raised concern about the extent of the mainland's capability to sustain Taiwan's coal needs. I recently visited Hu Fuguo [5170 1381 0948], China's vice minister of energy resources in charge of the coal industry and general manager of the central office of China's state-controlled coal mines. He said, "China's reform and opening up to the outside world have enabled the coal industry to achieve rapid growth. Coal is not only providing a reliable source of energy for the mainland's economic development, it is also being exported for foreign exchange and becoming a major export commodity. In particular, the unfolding of the coal trade between the mainland and Taiwan, at the same time it is helping Taiwan's energy shortage, could also become a link promoting feelings of compatriotism between the two shores."

He reported that, since 1988, the volume of the mainland's coal trade with Taiwan has seen a 50 percent increase each year and, since 1988, there has been an endless stream of trade talks concerning coal and other forms of cooperation with Taiwan friends. These are excellent first steps. However, mainland coal now accounts for a very small amount of the total volume of coal that Taiwan imports. The coal trade awaits further growth.

In analyzing Taiwan's energy needs, the vice minister declared, "It is well known that the energy demands created by Taiwan's economic growth have been continuously expanding. The supply of coal has become a major energy problem for Taiwan. On the one hand, limited by its reserves and potential for exploitation, Taiwan's coal industry has sharply declined in recent years. On the other hand, since the world oil crisis of the seventies, Taiwan has begun to reconfigure its energy structure by increasing the use of coal and continuously expanding its importation. With the coal needs of the large-scale key industries of steel and electric power steadily on the increase and the amount coal used by nongovernmental enterprises constantly on the rise, it is not hard to imagine coal becoming an important segment of trade between the two shores."

He noted that, since the mainland's coal industry possesses abundant strength, that should provide a favorable condition for Taiwan's economic growth.

First, the mainland has rich coal resources. Proven deposits now come to 890 trillion tons. They are widely distributed. Of the more than 2,000 mainland counties and cities, the majority have coal deposits. Furthermore, the mainland has a good assortment of coal. It has bituminous, anthracite, and lignite. In particular, its

coking and noncoking coal—such as gas coal, rich coal, and lean coal—each of which constitute about half of the mainland's rich deposits of bituminous, could satisfy the needs of Taiwan's industrial economy for coal assortments.

Second, since the People's Republic was established 40 years ago, the mainland has made development of its coal industry a strategic economic focus. This has given the industry a proper base. Coal output has gone from 32.4 million tons in the period shortly after the People's Republic was founded to 1.04 billion tons in 1989 to become the world's number one coal-producing country. Enterprise efficiency has also been noticeably enhanced. A number of mines have undergone a high degree of mechanization, with mechanized coal extraction now accounting for more than 60 percent of total output. In the past decade, modernized comprehensive mechanization of coal extraction has also been vigorously developed, and integrated extraction equipment has been installed in a number of mines. The scale of coal mining production has been continuously expanding, with plans for more than 2,300 state-operated mines of 30,000 tons and above to have a capacity of more than 600 million tons. Most of the Mineral Bureau's 16 state-controlled mines with an annual output of 10,000 tons are to become specialized large-scale coal mining enterprises producing more than 30,000 tons annually. Encouraged by state policies, township and town coal mine groups are also developing quite rapidly, with total output reaching more than 300 million tons.

Third, the mainland's coal trade with Taiwan has undeniable economic and geographic advantages. In the past, Taiwan has mainly bought coal from Australia, the United States, South Africa, and Canada. The shipping distances are all much further than from the mainland. In recent years, ocean shipping charges have constantly been going up. Looked at economically, by importing coal from the mainland, Taiwan would save a great deal in shipping charges alone. Therefore, the increased use of mainland coal has obvious advantages for Taiwan's economic development.

With respect to product quality, he said, "People have been concerned a long time about the quality of the mainland's coal exports. To improve the quality of our coal, we have selected a group of coal-exporting enterprises in which we have instituted various types of quality control systems. We have achieved substantive results by improving their equipment, such as their chemical testing equipment, screening equipment and equipment for removing impurities, and by establishing bonuses and funds for quality. The state has also identified a number of coal-exporting bases where it would be beneficial to improve the quality of their export coal."

In discussing the economic cooperation between the coal industries of the two shores, Hu Fuguo said, "We would also greatly welcome people from Taiwan industrial and commercial circles working with mainland enterprises in various kinds of economic cooperation to speed up the

development of the mainland's coal industry. Since the eighties, mainland state-operated coal enterprises have begun to make great strides toward economic pluralism. One after another, they have been exploiting their own specific advantages and, in addition to coal, have been actively developing products associated with other industries such as machinery and electrical equipment, light industrial products and textiles, industrial chemicals, and building materials. Coal enterprises in provinces such as Guangdong and Fujian have achieved excellent economic results by providing preferential conditions to overseas investors and those involved in joint ventures to develop production of outwardly oriented light industrial and electronic products. Many coal mines have developed along side groups of enterprises producing a variety of products, thus bringing an increased vitality to the coal industry. However, because in the past mainland coal enterprises managed only

single products, their skills are relatively backward and funds are somewhat lacking. This has affected their potential for development. This also presents a broad opportunity for Taiwan industrial and commercial circles to engage in cooperation."

In closing, Hu Fuguo declared, "Coal trade contacts between the two shores in the straits are not only a beneficial economic relationship, they also reflect the flesh-and-blood feelings of compatriots. Judging from the actual situation, objective conditions between the mainland and Taiwan are maturing step by step. It is expected that industrial and commercial circles of the two shores, by increasing their ties, will achieve mutual benefit and build a bridge based on coal trade between themselves, thereby promoting the economic prosperity of both shores.

KMT Internal Controversy on Constitutional Reform
 91P30118A Hong Kong CHING PAO [THE MIRROR]
 in Chinese No 163, 10 Feb 91 pp 78-80

[Article by Liu Fang (2692 5302): "Constitutional Reform Breeding a Great 'Storm'"]

[Text] This year is a "political year" in Taiwan—the ruling KMT [Kuomintang] is determined to implement constitutional reform; the second election of National Assembly members is to be held; the "10,000-year Parliament" without the support of popular will is to be reorganized; the "Period of Mobilization Against Communist Rebellion" is to come to an end; and the related obsolete legal provisions are to be revised. Many analysts maintain that the undertaking of such major "political engineering" is bound to set off a "great political storm" sweeping over the whole island and even stretching into the mainland.

As a matter of fact, the prelude to the "great political storm" appeared long ago. Since last winter, a [desirable] form of constitutional government has been a subject of heated dispute among senior KMT cadres on the one hand, and between the ruling party and the opposition on the other.

Originally, the supreme authority of the KMT put forward the measure of "one-organ, two-stage" scheme for amending the Constitution. However, early in November 1990, some powerful KMT figures represented by Lin Yang-kang, president of the Judicial Yuan, suddenly "strongly advocated" shifting to a "one-organ, one-stage" scheme. The scheme proposed by Lin as deputy group leader of the KMT Constitutional Reform Task Force and chief of the Legal System Section especially drew public attention. It is particularly noteworthy that his measure was approved by 10 votes to seven in a meeting of the section. Accordingly, how to achieve a "consensus" on a scheme for amending the Constitution has become a formidable task among KMT senior cadres.

On 25 December 1990, KMT Chairman Li Teng-hui, in his capacity as president of the island nation, gave an opening speech in celebration of Constitution Day and at other two meetings. In the speech, he "clearly indicated" that the end of the Period of Mobilization Against Communist Rebellion will come by the end of this May, and he "openly demanded" that, in constitutional reform engineering, the "two-stage" scheme for amending the Constitution would be adopted. Nonetheless, what he had said in his capacity as "Chairman Li" or President Li does not hold. Various political subgroups within the KMT and opposition parties continue to raise their voices in loud opposition. Besides, the KMT's top hierarchy has not formed a consensus. According to LIEN HO PAO, 9 days after Li Teng-hui's "open demand"—that is, on 3 January this year—the KMT Central Committee held a "constitutional reform explanation meeting" intended to explain various schemes of constitutional reform to members of the

Standing Committee and other VIP's in charge of party affairs. Vice President Li Yuan-tsu presided over the meeting, at which most members of the Standing Committee supported the "two-stage" scheme for amending the Constitution, but a small number, including such heavyweight "major elders" as Li Huan and Shen Chang-huan, favored Lin's "one-stage" scheme. Finally, Li Yuan-tsu had to state that a "final decision on a Constitutional reform scheme" had not yet been reached, and that further efforts would be made to seek consensus of opinion.

On 11 January, members of the KMT Constitutional Reform Task Force such as Shih Chi-yang, Cheng Hsin-hsiung, and Ma Ying-jeou, when soliciting opinions from supplementary assemblymen and members of the Legislative Yuan, said: "The ruling party has not reached a final decision on any constitutional reform scheme; it is not certain whether national assemblymen for amending the Constitution will be elected or not."

At the time of this writing, the Central Committee has not reached a final decision on any constitutional reform scheme. The committee has only decided tentatively that an extraordinary session of the National Assembly will be convened sometime in April.

In the so-called "one-organ, two-stage" scheme for amending the Constitution, "one-organ" refers to the National Assembly, that is, the assembly to amend the Constitution without the participation of the Legislative Yuan and other organs. "Two-stage" means amendment of the Constitution in two stages. In the first stage, the current first National Assembly is to convene an extraordinary session to formulate a provision which will serve as a legal base for selecting members of the second National Assembly; and to annul those obsolete articles in the Temporary Provisions such as immediate abolishment of the stipulations on [unlimited] consecutive reelection and reappointment of the president and the vice president, the right to replenish people's delegates at the central government, exercise of the two rights [initiative and referendum] by the National Assembly, and establishment of a research institute of constitutional rule. Then, the second election of National Assembly members will be held in accordance with the legal provision approved by the first National Assembly in the process of amending the Constitution. The newly elected assemblymen will call a meeting to abolish the aforementioned legal provision along with the Temporary Provisions in the course of adopting the proposed constitutional amendment resolution.

However, according to the "one-organ, one-stage" scheme, current first National Assembly members will call an extraordinary session to complete both the process of amending the Constitution and abolishment of the Temporary Provisions in one move.

On the surface, the "one-organ, one-stage" scheme is justified on the grounds that the "two-stage" scheme is a huge, time-consuming, costly, and strenuous project, and

the "one-stage" scheme can accomplish the whole task at one stroke, which tends to simplify matters. Moreover, Li Teng-hui can proclaim the end of the Period of Mobilization Against Communist Rebellion in May as scheduled. He does not have to "announce in advance" the end of the mobilization period. Neither is he required to hold an election of "national assemblymen for amending the Constitution." By so doing, the question of the legal base of "national assemblymen for amending the Constitution" will not arise. In addition, senior assemblymen will have an opportunity to accomplish the tasks of amending the Constitution for the last time before retirement, which amounts to "retirement after success in a great undertaking." More important, senior assemblymen "administer the country fairly and loyally" and "have a long and close connection with the KMT" so that their amendment of the Constitution in "one stage" should be able to make them "accomplish the task assigned by the party." But an election of "assemblymen for amending the Constitution" along with the "two-stage scheme for amending the Constitution" will bring about too many political variables. This is "worrisome."

Those who support the idea of the "one-organ, two-stage" scheme maintain that, as clearly indicated in the final report of the National Affairs Conference, "amendment of the Constitution should be undertaken according to a scheme as well as by an organ with popular support, and those present should already have formed a full consensus," and that, accordingly, electing "assemblymen for amending the Constitution" to accomplish the task of amendment of the Constitution is in keeping with both the consensus reached at the National Affairs Conference and the aspirations of the people. Li Yuan-tsu even stated that "although it is difficult to foresee changes involved in the second election of National Assembly members and the second stage of amending the Constitution, the ruling authorities are bound to do so out of respect for the will of the people and objective circumstances."

At first glance, each scheme has its own merits and the debate is part of ordinary dialogue within the KMT. Nevertheless, people gradually discovered that those who are in favor of the "one-stage" scheme for amending the Constitution belonged to the "non-mainstream faction" during the political struggle in February last year, and that most of those who are in favor of the "two-stage" scheme are members of the "mainstream faction." Some people in the media even go so far as to consider the idea of the "one-stage" scheme as the "non-mainstream view" and that of the "two-stage" as the "mainstream view."

Indeed, besides the fact that the "non-mainstream view" has been clamorously advocated by Lin Yang-kang—the key figure during the political struggle in February last year, other [powerful politicians] such as Li Huan and Shen Chang-huan have identical views on the issue. "Non-mainstream legislators" like Jaw Shau-kang [Chao

Shao-kang], Yok Mu-ming [Yu Mu-ming] and Lee Sen-fong [Li Sheng-feng] also oppose the "two-stage" scheme. Furthermore, an overwhelming majority of senior assemblymen oppose the idea of "political self-disarmament by giving up their right to amend the Constitution." They have even set up the "Committee for Safeguarding the Constitution."

Ostensibly, senior assemblymen have expressed their indignation at the accusation that, because they lack the support of popular will, they have no right to amend the Constitution. On 25 January, the "Committee for Safeguarding the Constitution" even angrily questioned KMT Secretary General James Soong: "If the assertion that we don't have the support of popular will stand, does the President elected by us have any popular base?" In addition, they stated that efforts to persuade them to retire was tantamount to a "communist way of doing things."

However, in view of the fact that they will rely on the quorum they now have in hand to obstruct amendment of the Constitution if arrangements are not made to hold the second election of National Assembly members at the end of 1992 and to allow them to retire at the beginning of 1993, it is rather obvious that they are motivated mainly by reluctance to retire and by upholding their own vested interests.

Legislators like Jaw Shau-kong essentially expect that the Constitution will be amended by the Legislative Yuan so that they can have more opportunities to perform politically. Jaw said that it would be better to let the Legislative Yuan amend the Constitution than to allow the "assemblymen elected for amending the Constitution" to do the job, because a "known monster" like the Legislative Yuan is easier to "keep under control" than an "unknown monster" like "assemblymen elected for amending the Constitution." Moreover, some "non-mainstream legislators" maintain that since "most legislators are elites in their respective parties and the newly elected assemblymen must be 'inferior political goods,' why not allow the elites to amend the Constitution rather than pin hopes on 'second raters?'"

Lin Yang-kang said to reporters that he never exchanged views on amendment of the Constitution with Li Huan or Shen Chang-huan, and that their views just happen to be somewhat similar to his. He further indicated that it was rather ridiculous that this issue and power struggle had been lumped together. However, the general public tends to believe that the speculation has a bearing on Lin's desire to run for the next president. Lin also admitted that some people had urged him to organize a foundation to create a spirited atmosphere for the upcoming presidential race. Nonetheless, he considered it inconvenient in his capacity as president of the Judicial Yuan to do so.

In fact, while "non-mainstream" key figure John Kuan established the "Democracy Foundation," Chiu Chuang-huan, left out in the cold by Li Teng-hui, set up

the "Foundation for Promotion of National Development." Several trustees of Chiu's foundation also serve as trustees in the "Democracy Foundation." Chiu professed that the two foundations will coordinate their activities. Their attitudes toward the controversy over amendment of the Constitution, according to public opinion, belong to those of the "non-mainstream" faction. Nonetheless, they, in reality, mainly insist that the mechanism of "primary election" should be utilized by the KMT to select candidates for the new National Assembly, Legislative Yuan, and Control Yuan. Obviously, they are convinced that only by so doing, can those weakened, disfavored KMT politicians stage a comeback.

Therefore, in light of the above analysis, the present controversy appears to be not quite the same as the February 1990 incident. It seems to the writer that the incident was, to a great extent, a redistribution of power between the KMT traditional power group represented by Chiang Wei-kuo and its newly developed power group under the leadership of Li Teng-hui. The present controversy, however, reflects, to a great degree, a contradiction within the KMT between those gaining influence and those losing influence.

It should be especially pointed out that the aforementioned contradiction is not the focus of the political struggle for amendment of the Constitution. Rather, the focus is a power struggle between the KMT and the DPP [Democratic Progressive Party].

As a matter of fact, the purpose of both the "one-stage" and the "two-stage" schemes for amending the Constitution is "to ensure that the KMT remains in power." Since senior KMT assemblymen enjoy an overwhelming majority in the National Assembly, the party can play a leading role in the process of amending the Constitution. Yet, this violates the will of the people. If the Constitution is amended by the "assemblymen elected for amending the Constitution," it is possible that the DPP will have some seats in the newly elected National Assembly, which tends to make it difficult for the KMT to manipulate the situation. But this conforms to the common aspirations of the people which, in turn, will win praise from the people, gain victory for the KMT in the election of "assemblymen for amending the Constitution, amend the Constitution without a hitch, and lay a solid popular foundation of staying in office for a long time. This actually is the true intention of the "mainstream idea." As to Li Yuan-tsu's contention that the "KMT would rather take chances than go against the will of the people," this is a kind of strategy in a propaganda war intended to win the support of voters.

In fact, the election of "assemblymen for amending the Constitution" is a crucial point of the struggle for constitutional rule between the KMT and the DPP. In light of available information at the moment, the DPP is not overly concerned about the scheme for amending the Constitution favored by the KMT. Instead, the major opposition party lays stress on election returns in the

"election of assemblymen for amendment of the Constitution." As stipulated in the Constitution, the DPP will be regarded as a winner if the party can gain more than one-fourth of the seats in the newly elected National Assembly, because the KMT, in order to pass a favorable proposed amendment to the Constitution, must control over three-fourths of the delegates to the National Assembly. If the DPP has one-fourth of the delegates in hand, it can block any proposed constitutional amendment favored by the KMT although it cannot push through any favorable one. Therefore, it is certain that during the election of "assemblymen for amending the Constitution" and in the process of amending the Constitution by the newly elected National Assembly, the DPP will promote the "Constitution of the Republic of Taiwan," which, in turn, will set off a large-scale "unification versus independence battle." As for the outcome, we might as well wait and see.

General Sun Liren Eulogized

91CM0307A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 1, 1 Jan 91 pp 94-96

[Article by Yin Wei-min (3009 1920 2404): "Mourning General Sun Liren—A Professional Soldier's Tragedy"]

[Text] In a letter Engels wrote to his friend Danielson (dated 24 February 1895), there was a very moving passage in which he said, "History is no doubt the cruelest of all goddesses. No only in wartime but even during times of 'peaceful' economic development, she speeds past in her chariot of triumph that is piled high with corpses." I often think of the last 100 years of China's history, riddled with chaos and war. It was indeed a period in which the cruel goddess sped off in her chariot of triumph that was piled high with corpses.

In the turmoil and chaos of war, personal tragedies and the tragedies of the times become one. Sun Liren's tragedy epitomized this tragic era.

Much has been written about Sun Liren's life and the injustice done to him before and since his death. Sun Liren projected an image of great esteem. He was a loyal official, a general devoted to serving his country. He was dedicated and upright and was like a father or brother to his subordinates. On the battlefield, he was a commander well-versed in military tactics; he was brave and was a great warrior. He was a model soldier, but his accomplishments only aroused the jealousy of his superiors, and he was persecuted by those in power. He spent more than 30 years under house arrest and eventually died a lonely death.

To learn about Sun Liren's life, we can read his own unpublished memoirs. Xu Di [6079 3695] also wrote *Baizhan Junhun—Sun Liren Jiangjun [The Spirit of a Soldier of a Hundred Wars—General Sun Liren]* in two volumes. He conducted exhaustive research and gave detailed accounts of Sun Liren's military successes. These materials can help us understand his tragedy from a sociological point of view.

Sun Liren came from a scholarly family; his father had been an imperial scholar in the Qing dynasty. Sun received traditional moral and cultural education as a child and enrolled in the elitist Qinghua Preparatory School before receiving a scholarship to attend college in the United States, where he received his Western education and training. He enrolled in Purdue University and majored in civil engineering. Upon receiving a B.S. degree, he entered the well-known Virginia Military Institute to study military science. This kind of schooling was very unusual at that time, because traditional Chinese society emphasized polite letters over martial arts, and so far as the intellectuals were concerned, to "enlist" in the army even in times of war would have been but a temporary choice. It was extremely rare indeed for someone who had received a B.S. degree from a well-known Western university to go on to a military academy.

From the sociological point of view, Sun Liren who was educated at Purdue University and Virginia Military Institute was a Western professional. Professionalism has several characteristics: 1) It requires a diploma system. 2) The person who has professional knowledge and training has a greater degree of freedom in choosing his occupation. 3) There must be a set of professional standards, as established by the diploma system, the professional associations, and the state's legislative organs. 4) There must be professional morals (which are often referred to as professional ethics) and behavioral norms. In Western societies, professionalism is maintained by the above-mentioned conditions, and it is these conditions and standards that give the professionals a sense of accomplishment and make them proud of their professions.

In this sense, it should not surprise us that once Sun Liren, a Western college-educated "professional soldier," was put into the Chinese society of the 1930's and 1940's, he would find himself completely out of place. Western professionalism must be accompanied by the proper political and economic systems, and only under those systems can the professional give play to his ability.

Thus, in a simple environment outside of China, such as in Burma, a Western-trained professional soldier was able to lead a U.S.-equipped Chinese army to fight against heavy odds, win a brilliant victory, rescue the British soldiers besieged by the Japanese Army, and distinguish himself internationally. But the same professional soldier in China would find himself surrounded by an atmosphere created by a completely different system and quickly become entangled in what to him were very strange elements.

Sun Liren rendered meritorious service again and again when he was in Burma but was unable to distinguish himself in the battlegrounds of China's civil war. This more or less demonstrates the kind of problems faced by professionalism under a different political structure. Can Western professionalism and a nondemocratic system

coexist? Can a professional soldier who abides strictly by professional standards function normally under a different system? These are indeed puzzling questions.

Sun Liren's misfortune can be summed up as a process in which a simple professional soldier was slowly sucked into a strange and complicated political mire until he was completely swallowed up.

In military affairs, Sun Liren was a very accomplished and well-trained specialist. In military strategy and military tactics, he was extremely talented. The Battle of Burma made him proud of his own achievements. But to the Whampoa generals, who were more accustomed to losing than winning wars, this sense of professional accomplishment was "sheer arrogance" and "superciliousness." This was one of the reasons why Sun and Chiang Kai-shek's "followers of the son of heaven"—the Whampoa generals—never got along. Xu Di's *Baizhan Junhun* talked about how the Whampoa soldiers were jealous of Sun, how they banded together to deal with him, and how, whenever they had a chance, they would "swallow up" the elite troops Sun had personally trained.

The 1930's and 1940's were a very confusing time for China. Because there were no professional standards, a fine professional soldier not only was not given the professional recognition he deserved, but actually became the target of discrimination and jealousy. In the political mire that ignored all standards, to be in control of the Army was the only chip one had to bargain with those in power, and economic gains usually came with the power. Thus, there was intrigue and conflict among the blood relatives of the "followers of the son of heaven," the northern army, the Guangxi clique, and the mixed-bag armies, and in a battle, there were often mixed-ups in the command system. Xu Di detailed all these in his book. Sun Liren could not bring himself to wallow in the mire with the "followers of the son of heaven" or play their game of intrigue and deceit, and in carrying out his war duties he insisted on his own professional judgment in strategic matters. This made it impossible to avoid confrontations with the Whampoa generals. The most serious clash came during the battle against the Communists in the Northeast, when he had a fall out with Du Weiming.

Why was the kind of professionalism nurtured by the Virginia Military Institute so incompatible with China's social environment at that time? At a time of great confusion about values, besides the fact that the conditions needed to maintain professionalism were completely absent in China, so far as the military was concerned, what those in power wanted for "professional standards" was a "revolutionary soldier." The Whampoa Military Academy which went by this standard basically copied the Soviet Union's Red Army system—a double-track operational system and party committee system (that is, the political work system). This was the product of Sun Yat-sen's "making Russia our teacher." The Whampoa Military Academy itself was set up under the guidance of the Soviet adviser

Borodin. The kind of Leninism that did everything in the name of "revolution" but actually acted in the interest of the party was, of course, very different from the kind of professionalism which compelled the army to subordinate itself to the country and to defend the country's interests. Later, in Taiwan, Sun Liren harbored thoughts of "military nationalism," and this was the cause of his subsequent clash with the military political work system under Chiang Ching-kuo.

Sun Liren was a brave man and a great warrior, and he won the praise of European and U.S. commanders and generals alike. Even Stilwell, the arrogant chief-of-staff in the Chinese theater of operation who called Chiang Kai-shek "peanut," admired Sun for his military ability. On the other hand, Sun Liren was a general who had great respect for professional integrity. He was an honest man, and, like a crane among chickens, he stood out in the corrupt Nationalist government; he was like clean water, which won him the Americans' trust. In the later part of the civil war between the Nationalists and the Communists, it was obvious to the decisionmakers in the United States that things were all but over for the Chiang Kai-shek-led Nationalists government. On the one hand, the Americans abhorred Chiang's corrupt and inept government and were unwilling to continue to support Chiang's rule in Taiwan; on the other hand, they valued Taiwan's strategic location and hoped that Taiwan could one day become the stronghold to stop Communist expansion, and under this strategic consideration, they naturally had their eyes on Sun Liren, then Taiwan's garrison commander who was training a U.S.-style army in Fangshan. They had hoped to use Sun to start a coup to drive out Chiang Kai-shek.

Last year, interviewed by the North American edition of NEWSWEEK, former U.S. Secretary of State Rusk personally confirmed that, in June 1950, the United States received a secret dispatch from Sun Liren in which he said that he was ready to start a coup to topple Chiang Kai-shek. Some months ago, a TV documentary shown in the United States detailed the causes and effects of the Korean war and, in the segment that showed an interview with Rusk, he talked about the circumstances before the Korean war and alluded to the same incident but did not mention Sun Liren by name. Of course, the Korean war broke out after June 1950, and all plans about the coup vanished into the thin air.

I pointed out in this column back in October 1990 that if we try to understand this coup d'etat plot that never took place by putting ourselves in the historical context of that period, Sun Liren would come out intact in the overall scheme of things, because whether in the mainland or in Taiwan, Chiang Kai-shek was a much disliked dictator, and besides, the major premise of this plot was the preservation of Taiwan. So far as Sun's professional integrity was concerned, if he had indeed started the coup and replaced Chiang, the Taiwanese people would have been spared the 30 years of autocratic rule under

the father and son Chiang. On this issue, we cannot simply accept the viewpoint that "existence is its own justification."

Yet, this has to do with "professional morals." In normal circumstances, the professional morals of a professional soldier would require him to be loyal to the supreme commander. But under the situation at that time, when the "followers of the son of heaven" were engaging in an all-out internal strife, if a professional soldier dedicated to professional morals was unwilling to wallow in the mire with the others, his only choice would be to abandon army life and join the ranks of the peasants or simply idle his time away. But if he wanted to change the system, he would have no choice but take "extraordinary" measures, and it would have been impossible to abide by the professional moral of "loyalty." In a non-democratic political environment, this was indeed a dilemma, and in this dilemma, we also witness the tragedy of a professional soldier.

Uncertainty Prevails About Economic Recovery

91CE0274A Hong Kong CHING CHI TAO PAO
[ECONOMIC REPORTER] in Chinese No 1-2,
1 Jan 91 p 99

[Article by Zhang Yi (4545 1837): "Taiwan Economy Beginning To Recover?"]

[Text] Has the Taiwan economy recovered? Not only is there no consensus among government officials, but businessmen too have widely different opinions depending on the commodity they are dealing in.

No Agreement Among Government Officials

The recession that hit the Taiwan economy in 1989 was caused by a variety of reasons including changes in exchange rates, higher oil prices, labor shortages, rising interest rates, and the precipitous drop in stock prices.

According to economic projections for September, October, and November released by the government, the Taiwan economy is on the mend. President Hao Po-tsun of the Executive Yuan told a press conference a couple of days ago that the Taiwan economy was improving and that there was no longer a need for government to take relief measures to tide business over the difficult year-end days.

According to the Council of Economic Planning and Development of the Legislative Yuan, the leading economic indicators have been climbing the last three consecutive months. Both exports and imports registered double-digit growth in the first week of December, reminiscent of the robust expansion in foreign trade in 1987. No doubt the economy has recovered overall.

But the Ministry of Economic Affairs thinks otherwise. It argues that while the current leading economic indicators do point to a recovery in foreign sale orders and exports, they do not mean that the Taiwan economy is

out of the woods and on the road to recovery. They only suggest that recovery is within sight or that the recession may come to an end within a certain period of time.

According to the ministry, whether or not the Taiwan economy has recovered is a judgment that must be based on the issue indicators. During the third quarter, the number of people employed in the manufacturing sector, one of the issue indicators, dropped 8.92 percent and inventories had begun to fall. Revenues fell for the third consecutive month since August. The ticket return rate has been persistently high. All this does not portend an upturn in the economy.

According to the Ministry of Economic Affairs, the shadow period of the recession refers to the period between the fall in the leading economic indicators and the rebound in the issue indicators.

In light of the fact that the issue indicators mentioned above have not yet bounced back, we cannot simply conclude from the signs of life in the current leading economic indicators that the Taiwan economy has staged a recovery.

Economy Expected To Grow 6.14 Percent in New Year

The original government projection was that the Taiwan economy would grow 7 percent in 1990. Owing to the slump in the manufacturing sector, rising prices, the stock market crash, and the sluggishness in the real estate market, the government had already adjusted the projected growth rate downward to 5.5 percent earlier and again to 5.15 percent after the Persian Gulf crisis broke out. The latest projection from the planning office of the Executive Yuan is that the economy would grow a mere 5 percent in 1990.

As for economic projections for the year ahead, the planning office disclosed that industrial production stopped its downward slide and has been on an upward path since September 1990. Exports also have rebounded, suggesting that the economy is on the mend. The government currently is accelerating public construction, improving the investment climate, and stimulating market demand. Moderate growth of 6.14 percent is forecast for 1991 as a whole and the trade surplus is expected to dip to \$7.5 billion. Because the situation in the Middle East remains murky and inflationary pressures persist, consumer prices are projected to rise 4.54 percent and 3.03 percent, respectively, in 1991.

Economy To Recover in Second Half of Year

Although the government thinks the economy has hit bottom and is fairly optimistic about economic growth in 1991, people in commerce and industry have a different view, depending on how their particular industry is doing.

A comprehensive survey by the Ministry of Economic Affairs on the various manufacturing industries notes that the manufacturing sector overall has shown signs of

improvement since the third quarter of 1990. But while the sector was much stronger in the third quarter than in the second quarter, it was essentially flat compared to the same period a year ago.

Within the manufacturing sector, industries like food, building materials, and paper goods, which target the domestic market primarily, and other industries geared mainly to the entrepot market such as the chemical fiber industry are said to be doing quite well and were hardly touched by the recession in 1990. Their current situation is good and the outlook for 1991 is also favorable. On the other hand, the petrochemical line of products, which has been affected by the crisis in the Middle East, the mid- and upstream parts of the textile industry, the machinery industry, and the domestic electrical appliance industry, all export-oriented, are still in the doldrums. People in those industries are pessimistic about the year ahead and are worried about soaring raw materials prices and wage increases. They do not think that the economy is on the mend.

KUNG SHANG SHIH PAO of Taiwan recently conducted a study on 56 firms in 15 industries including petrochemical, textile, building materials, paper goods, machinery, food, drugs, domestic electrical appliance, and computer. It shows that 30 companies were operating at full capacity and 6 at over 90 percent capacity. In the first three quarters, 32 firms maintained their level of activity at last year's pace or were doing better. As for their projections for 1991, 62.5 percent described the outlook as gloomy, while 28.8 percent said the outlook was good or passable. Asked when the economy would recover, 60.7 percent mentioned the second half of 1991 or 1992.

Many businessmen think the Taiwan economy is not as strong as the government imagines. In the absence of government assistance, the year ahead will certainly be a tough one.

According to a recent survey by the Public Opinion Poll Foundation, 43 percent of those polled expressed optimism about the Taiwan economy in the first half of 1991, 32.4 percent said they were not optimistic, and 24.6 percent had no opinion.

Commenting on the lack of optimism among Taiwan businessmen, the Council of Economic Planning and Development offered two explanations: For one thing, there is the sluggish domestic market. After the stock market crash, public consumption dried up. The recession has only intensified the public's sense of crisis. Hit by this dual blow, the domestic market has been in a slump ever since. Second, falling profitability. When the economy was just bottoming out, most businessmen were ready to accept any order provided the price was more than the fixed costs. Right now, however, exports are surging and businessmen need not worry about a lack of customers, so they accept orders more cautiously.

Quantity is a clue to price. The period of unprofitable recovery is expected to end soon and give way to better times.

Be that as it may, Taiwan depends on imports for 90 percent of its oil, two-thirds of it from Saudi Arabia. If war breaks out in the Middle East, leading to higher oil prices and inflation, the Taiwan economy will stagnate. The war clouds in the Middle East are still putting enormous pressure on the Taiwan economy.

Modification of Foreign Exchange Policy Proposed

*OW2503034991 Taipei CNA in English 0245 GMT
25 Mar 91*

[Text] Taipei, March 25 (CNA)—The Republic of China [ROC] should abandon its long-standing policy of pegging its currency to the U.S. dollar, an economic planner said Monday.

Yeh Wan-an, vice chairman of the Council for Economic Planning and Development, said the government should modify its foreign exchange policy to enhance the stability of NT dollar against "a basket of foreign currencies."

He said the modification is necessary because the structure of ROC's foreign markets has changed significantly in recent years and the U.S. dollar is expected to appreciate substantially in world monetary markets.

The policy change may help the ROC maintain monetary stability and the competitiveness of its products in world markets, he added.

New High Expected in Foreign Exchange Reserves

*OW0204120491 Taipei CNA in English 0800 GMT
2 Apr 91*

[Text] Taipei, April 2 (CNA)—The Republic of China's foreign exchange reserves will break the 100 billion U.S. dollar mark within the next six years, an economic planner said Tuesday.

Chang Wen-po, a department chief with the Council for Economic Planning and Development, said that with the launching of the new Six-Year National Development Plan, public and private investments are expected to account for 26.3 percent of the gross national product (GNP) from 1991 through 1996.

During the period, Chang predicted, the national savings rate will reach 29.6 percent, with an excess savings rate of 3.3 percent.

Chang forecast the country's total production of goods and services (GNP) will top 38.4 trillion NT [new Taiwan] dollars over the next six years. Multiplying that figure by the 3.3 percent excess savings rate generates a surplus savings figure of 1.26 trillion NT dollars.

Chang said excess savings are tantamount to current account surplus. Based on an exchange rate of 27.3 NT dollars to one U.S. dollar, the country will accumulate a current account surplus of 45 billion U.S. dollars over the next six years.

"If this sum of money does not flow out of the country," Chang said, "our forex reserves will reach an equivalent of 120 billion U.S. dollars."

As the nation's investment climate has improved, Chang said huge capital outflows are not expected to occur in the next few years.

With rich forex reserves, the Republic of China will certainly become one of the world's principal capital suppliers in the future, Chang continued.

In fact, the ROC is already a major capital source, with its overseas investments well above 10 billion U.S. dollars in the past few years.

Chang said the government is drawing up a comprehensive plan to help local companies pool efforts in their overseas investment bids in order to enhance collective bargaining chips.

Residents Urged To Invest in Brazil

*OW0104100691 Taipei CNA in English 0904 GMT
1 Apr 91*

[Text] Taipei, April 1 (CNA)—People in the Republic of China [ROC] are urged to invest in Brazil, the nation's closest trade partner in South America, as Brazil is adopting a more open market policy and is forming a unified market block with three other South American countries.

Presidents of Argentina, Brazil, Paraguay and Uruguay met March 26 in Asuncion and signed a pact for the establishment of a unified market in South America on Jan. 1, 1995, a spokesman of the China External Trade Development Council (CETRA) reported Monday.

ROC's trade and investments in South America have been light during the past years as both political and economic developments in that part of the world were regarded as unstable.

According to CETRA statistics, ROC's two-way trade with Brazil, the largest trade partner in South America, stood at \$600 million in 1990. Trades with Paraguay, Argentina and Uruguay were much less at \$68 million, \$77 million and \$13 million, respectively.

A CETRA analysis indicated that Brazil, with one-tenth of its population being "well-to-do" economically, apart from the new market and industrial development measures being taken, should be the No. 1 target for ROC businessmen to promote trade and investments in South America.

CETRA called for ROC citizens to seize the opportunity to open up a wider horizon in South America by cracking

first Brazil which is rich in natural resources and a market with great potential.

Trade Delegation To Visit Middle East in April

*OW2803191191 Taipei CNA in English 1525 GMT
28 Mar 91*

[Text] Taipei, March 28 (CNA)—A trade delegation from the Republic of China will visit the Middle East in mid-April to study playing a part in the region's reconstruction after the Gulf war, an official said Thursday.

The official with the West Asia Department of the Ministry of Foreign Affairs said his ministry and the semi-official China External Trade Development Council (CETRA) will jointly organize the tour of Middle East countries.

Group members will come from government, business and trade circles, he added.

The official also said the Republic of China's new representative to Kuwait, Chang Jen-tang, had arrived in the Gulf emirate via Saudi Arabia to reopen the country's trade office. The office was closed just weeks after Iraq invaded Kuwait last Aug. 2.

CETRA and the state-run Chinese Petroleum Corporation (CPC) are also planning to reopen their offices in Kuwait as soon as possible, he said.

Trade Delegation To Visit Northern Europe

*OW2903184591 Taipei CNA in English 1540 GMT
29 Mar 91*

[Text] Taipei, March 29 (CNA)—A trade delegation from the Republic of China [ROC] will visit four north European countries and Switzerland in June to promote bilateral trade, the Board of Foreign Trade (BOFT) said Friday.

A BOFT official said the four Nordic countries are Sweden, Norway, Finland and Denmark.

The delegation will be headed by BOFT Director General Sheu Ko-sheng, who will also take part in a seminar sponsored by the Organization for Economic Cooperation and Development (OECD) during his stay in Helsinki, the capital of Finland, the official said.

The purpose of the trade promotion tour is to strengthen the Republic of China's economic relations with northern Europe, a weak link in the country's overall trade with Europe, the official said.

Europe is now Taiwan's second largest export market and one of its leading suppliers, but the European Economic Community (EEC) takes a bulk of the trade. Except for Switzerland, the trade of other non-EEC countries with Taipei is insignificant.

According to government statistics, ROC exports to Europe totaled U.S. \$12.2 billion in 1990, with U.S.

\$10.7 billion worth of the goods going to EEC countries and only U.S. \$1.2 billion heading for northern Europe.

ROC imports from Europe totaled U.S. \$10.9 billion, with U.S. \$9.6 billion worth of the goods coming from EEC members, and only U.S. \$1.1 billion from Nordic countries.

All the Nordic countries belong to the European Free Trade Association (EFTA), whose trade with EEC is even bigger than that between the United States and EEC.

This indicates that that part of the world has great trade potential and may turn out to be a major market for Taiwan consumer goods, the official said.

The Republic of China does not have diplomatic relations with any of the Nordic countries, but Sweden, Norway, Denmark and Finland all maintain trade offices in Taipei.

Second Group of Legal Thai Workers Scheduled

*OW0303183791 Taipei CNA in English 1554 GMT
3 Mar 91*

[Text] Taipei, March 3 (CNA)—A second group of 120 Thai workers is scheduled to arrive in the Republic of China March 12, Bes Engineering Corp. said Sunday.

A spokesman for the state-run construction company said a total of 243 Thai workers, all of whom had been previously employed by Bes in the Middle East, have been recruited to work on the nation's second highway project in northern Taiwan.

Chen Chao-wei, Bes board chairman, said that in addition to the Thai workers, his company is also planning to recruit workers from the Philippines.

The first group of 33 Thai workers arrived here Feb. 12, the first foreign workers to be legally employed in this country.

Minister Says No Ceiling on Mainland Trade

*OW0204103491 Taipei CNA in English 0858 GMT
2 Apr 91*

[Text] Taipei, April 2 (CNA)—Economic Affairs Minister Vincent Siew said Tuesday that his ministry does not restrict trade with the mainland to under 10 percent of the Republic of China's total foreign trade.

Siew, however, urged local manufacturers not to overly rely on a particular partner in expanding its business. The Board of Foreign Trade has established a trade warning system over a year ago to inform companies if it found that their dependency on the mainland market reaches an alarming level.

Siew hoped local manufacturers who have directly invested in the mainland would report to the ministry

before the April 8 deadline so as to facilitate the government's efforts to assist them in doing business in the mainland.

Siew said that his ministry would help local manufacturers to establish companies in Hong Kong to help conduct indirect investments. He hoped manufacturers would withdraw their investments if their investment items are not permitted by the government.

March Exports Expected To Rise

OW2703225791 Taipei CNA in English 1441 GMT
27 Mar 91

[Text] Taipei, March 27 (CNA)—Republic of China [ROC] exports totaled U.S.\$4.7 billion from March 1 to 23, a growth of 11.9 percent over the same period of last year, the Council for Economic Planning and Development [CEPD] said Wednesday.

CEPD forecast the month's exports to top U.S.\$6 billion and to change the previously pessimistic view that first-quarter exports would, at best, be sluggish.

Customs statistics show that during the 23-day period, the ROC imported U.S.\$4.1 billion worth of goods for an annual growth of 17 percent.

Cumulative exports as of March 23 reached U.S.\$15.8 billion, up 11.5 percent from 1990. Aggregate imports amounted to U.S.\$14.2 billion for an annual increase rate of 14.2 percent.

During the Jan. 1-March 23 period, the figures indicate, the ROC recorded a trade surplus of U.S.\$1.6 billion, down 8.2 percent from the previous year.

CEPD said both exports and imports have been growing at moderate rates while the trade surplus has been decreasing, a trend that will help the country achieve its overall economic targets.

City Bank of Taipei To Open New York Branch

OW2603181991 Taipei CNA in English 1510 GMT 26
Mar 91

[Text] Taipei, March 26 (CNA)—The City Bank of Taipei will open its first overseas branch in New York April 8, thus taking a step forward in its bid to set up a global service network, a bank spokesman announced Tuesday.

Taipei Mayor Huang Ta-chou and the bank's general manager Wang Shao-ching will fly to New York to preside over a reception marking the branch's opening day.

The city bank is also preparing to set up footholds in Europe, the spokesman said.

Population Growth Slows; Density Still 2d Highest

OW0204120291 Taipei CNA in English 0836 GMT
2 Apr 91

[Text] Taipei, April 2 (CNA)—Population growth of the Republic of China [ROC] has declined drastically during the past decade, but the population density remains the second highest in the world, Interior Minister Hsu Shui-teh said.

Releasing the results of last year's census, Hsu said the Republic of China's population grew an average of 1.241 percent in the decade ending in 1990, compared with 2.064 percent in 1980.

ROC population on Taiwan and on Kinmen and Matsu Islands stood at 20.4 million in 1990, compared with 18 million in 1980.

The country's population density of 564 people per square kilometer was second only to Bangladesh's 616 persons per square km. These figures compare with Japan's 314, Holland's 346, Korea's 387, and the United States' 24.

Taipei metropolis' population density of 10,160 per square km is much higher than Tokyo's 5,388 and New York's 9,050.

Of the various regions, 42.67 percent of ROC population is concentrated in northern Taiwan, with 29.30 percent in southern Taiwan and 24.63 percent in central Taiwan.

Only 586,000 people or 2.87 percent of the population live in the eastern counties of Hualien and Taitung, a clear indication of a vastly uneven distribution of the population.

The census also shows that 16.8 million or 82.63 percent of the population have received at least primary school education, and 2.4 million or 11.6 percent have received junior college or higher education.

Beijing Seen Pressuring Legislative Politics

91CM0175A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 229, 1 Dec 90 pp 18-19

[Article by Chiu Yun-tao (4428 0061 3447): "Legislative Council in Internal and External Struggle, Chinese Side Puts Pressure on Loyalty To Create Doubt"]

[Text] It is common knowledge that since its establishment, power in the 100-year old Legislative Council [Legco] has been wielded by its appointed members. However, in the wake of the injection of members from electoral organizations and functional groups beginning in 1985, the dominance of these appointments seems to be gradually heading towards a fierce conflict. Perhaps because the ratio of legislative seats has not changed since 1988, some might say that this means there is stability. However, in 1991 the Legco will add 18 directly elected seats, and this new element will inevitable create ripples in the old courthouse building (the Legco building) as everyone works in common for positive results.

The current session's term is from 1988 to 1991. At the last annual session, held in October, the 16 standing groups of the Executive Council and Legislative Council unexpectedly held an election for conveners. Everyone could see from the election results that appointed members will occupy many of the convener positions, including those of the public and New Territories affairs groups, the education group, the finance, tax and banking groups, the health group, the group working on land management, the housing group, the group concerned with public servants and employees of financial aid organizations, the transportation group, and the public safety affairs group. Appointed members occupy two-thirds of the positions within the more than 10 groups. Last year some of them were popularly elected members; this year they have been replaced by appointed members serving as conveners. Among those replaced were the health group's Liu Hua-sen [0491 5478 2773], replaced by Liang Chih-hung [2733 2535 7703]; Cheng Han-chun [6774 3352 6874] of the group working on land management, replaced by He Ch'eng-tien [0149 2110 1131]; and Szeto Wah [0674 1778 5478] of the group concerned with public servants, replaced by Huang K'uang-yuan [7806 0562 3293].

In reality, in the process of electing these conveners, there were a number of disturbances behind the scenes, the foremost of which was the conflict of interest affair of Legco and Executive Council member Maria Tam Wai-chu [6223 1920 3796]; this had tremendous reverberations on the street. Lady Lydia Dunn, a senior member of the Executive Council, was subsequently compelled to issue a directive to colleagues in the Council, instructing everyone to pay attention to the image and role of the convener in order to avoid creating unnecessary conflict. For this reason, under conditions where concessions were made to avoid trouble, there are of course some

people who will quietly retire from office and not contend again for the position of convener. It is true that the post of convener carries with it a certain amount of exposure, and it is advantageous to control the frequency and direction of group meetings. However, "Big Sister's" orders were also in the form of an ultimatum, and this caused no small amount of acrimony and unhappiness.

Reports say that many of the standing committee convener positions are occupied by senior members and newly selected senior female and male figures selected from among appointed members. As a result, many other members who harbor ambitions, or members of functional groups who have been reappointed to these positions for a second time, are dissatisfied. They bitterly attack these members as being a fire brigade (the name street vendors give to appointed members who explain the government's position and defend the policies of the authorities), and criticize the practice as one designed by authorities to use their own dominant position in order to establish their images and pave the way for extending their political careers. However, it is also strange that some of the elected conveners were not originally members of the group in question, and some were appointed members who rarely attended meetings and who were forced out like a swarm of bees. This also makes it difficult to avoid giving people the impression that they are going to great lengths to deceive a few, and trying to maintain their dominant position.

A large portion of the many appointed members has served the government for five or more years. This group includes Allen Lee Peng-fei [2621 7720 7378], Chou-liang Shu-yi [0719 2733 3219 11837], Maria Tam, Ye Wen-ching [0673 2429 1987], Fan-hsu Li-tai [5400 1776 7787 3141], Pan Yong-hsiang [3382 3057 4382], Pan Tsung-kuang [3382 1350 0342], and Tan-wang Tang-ming [6223 3769 5616 7686]. As for the new generation, there are He Cheng-tien, Hsia Chia-li [1115 0163 3810], Cheng Ming-hsun [6774 2494 6064], Pao Lei [7637 4320], Fang-huang Chi-wen [2455 7806 0679 7186], Lin-pei Yu-jia [2651 6296 5124 0857], Liu Chien-yi [0491 0256 0308], Liang Wei-tung [2733 3555 1749], and Tien Pei-chun [3944 0554 0193]. Within the senior generation, Chou-liang Shu-yi is awarded the most unswerving loyalty. She has wholeheartedly supported and defended the government's positions, from the 1987 public security law and the 1988 direct election proposal down to this year's Rose Garden plan. Hence, she deserves the name "chief of the fire brigade." Liu Chien-yi represents the younger generation, and she has a very good chance of winning an appointment; thus her market value will most likely rise. Important here is the fact that she has made substantial contributions in the Legco, particularly in terms of legal provisions, and she has made no small contribution in her efforts to explain government policy.

However, in view of the approaching question of 1997, many appointed members who have spared no effort on behalf of the government have already made their opinions known. The belief is that they do not want to be forced to face the destiny of participating in indirect or direct elections, although some feel they are in good

shape. These include Pan Tsung-kuang, Ye Wen-ching, and Pan Yong-hsiang. Another aspect is that the number of appointed seats in the 1991 Legislative Council will be reduced from the current 20 to 17, and hence it is inevitable that some appointed members will be "cut away." Therefore, they have made their opinions known early on, because later on they will be removed and can step down quietly.

There is no doubt that the Legislative Council is like the society, in which there are struggles among factions with different views, with the government acting to restrain and control the Legco. For this reason, there will still be 17 appointed seats in 1991, although direct elections represent an inexorable trend and many different types of political parties have already emerged in society to contend for these directly elected seats. Although these political parties claim to be organizations that bridge social strata, at their roots they still retain their specific coloring and cannot be viewed as the same, although they are also not incompatible. Yet they all use members currently holding Legco seats to make appeals.

At present, the Legislative Council basically has members of three political party organizations: the Hong Kong United Democratic Alliance [the Alliance], the Hong Kong Association to Promote Democracy [the Association], and the Hong Kong Liberal Democratic Federation [the Federation]. Legislative members belonging to the Alliance include party head Martin Lee Chu-ming [2621 2691 6900], Chou Mei-te [0719 5019 1795], and Szeto Wah [0674 1778 5478]; the Association has party chairman and deputy chairman Liang Chi-hong and Liang Wei-tung, as well as members Mai Li-chueh [7796 3810 6030] and Chen Ying-lin [7115 5391 7792]; the Federation has the party's deputy leader Maria Tam, Chung Pei-lin [6949 3099 2651], Ni Shao-chieh [0242 1421 0267], and Huang K'uang-yuan. It may be said that each relies on its own faction and each has real strength. Add to this the appointed faction within the Legco, leftist and rightist factions, independents, and forces representing village affairs, and it may be said that the deliberation over and implementation of every law could involve quite a spectacle.

It is an indisputable fact that the appointed members have always acted as the mainstream within the Legco. However, in facing future problems, there are those among the appointed members who sense which direction the wind is blowing, and plan to step down quietly. The newly established political parties are gathering strength, preparing and paving the way for the 1991 elections in order to gain even more seats within an organizational structure and expand the party's prestige and influence. All of this is a normal attitude and a rational approach; otherwise, why organize political parties?

Perhaps everyone understands all too well who holds the future sovereignty of Hong Kong in their hands, and they are already casting glances in the direction of China, and making friendly advances. Therefore, some of those

members who displayed unswerving loyalty to the British in the old days have already had a change of attitude, and they no longer display a one-way loyalty. During this year's Legco debate on the Hong Kong governor's work report, Fan-hsu Li-tai made a thought-provoking statement. She pointed out that recently there has been a trend whereby certain organizations have devoted themselves to seeking outside forces to intervene in Hong Kong's internal affairs. These intervening forces include those from China, Britain, or both. Fan-hsu is extremely dubious about this approach by the figures or groups described above: will this really benefit them or enable them to fulfill their long-cherished dreams? At the same time, there is also the question of whether these figures desire this for their own personal gain. Another problem is that frequent invitations for the Chinese to interfere in Hong Kong's internal affairs will set a dangerous precedent.

In addition, everyone can see the positions of the political parties gradually taking shape from the two great debates in the Legco in recent months, including those on the Hong Kong governor's work report and the new airport plan. Martin Lee, Szeto Wah, and Chou Mei-te of the Alliance already form an iron triangle, and the Association's Liang Chi-hong, Liang Wei-tung, Mai Li-chueh and Chen Ying-lin are also too busy to do much yielding. The Federation's Maria Tam even has concretely shown that she will not hesitate to abandon her position as standing subcommittee convener and her important consultative committee chairmanship to devote her attention to party matters and efforts to establishing the structure, reputation, and strength of the party. Hence, it is already an indisputable fact that the political scene of Hong Kong is moving towards political party formation.

Another situation worth noting is that, confronted with 1991, those figures serving only as appointed members seem to want to determine their own political futures and see whether can they continue to play the game; hence they must consider their future path after politics. Maria Tam is a good example, although Chen Ying-lin could serve as the most clear example. He evolved from an appointed member into a member who entered the Legco through the indirect, electoral group method. The result is that presently he has also joined a political party, and plans to contend for a seat through the direct elections in 1991. The situation of the two figures described above may serve to warn and remind those desiring to participate in politics that, although things move slowly in a representative political system, it truly consists of wriggles, with the ability of the government's imperial family to help itself decreasing daily and the people's calls for accountability growing daily; the ability of mainland forces to be involved in a negative way is exacerbated.

According to tradition, members appointed to the Legco should play a role in which they are willing to die to save the throne. This is something the Hong Kong government hopes to achieve and maintain as the political

system develops in 1991, although it may also lead to fierce conflicts with the new people who will enter the Legco. The Alliance, working hard for democracy, must play the role of the opposition, struggling for the interests of Hong Kong's people. The Association, an organization of middle-class Chinese and foreign figures, must work for the well-being of its own members in addition to struggling for democracy. The Federation, an organization of industrial and commercial circles which openly asserts its desire to obtain the approval of the Chinese side, has goals that are all too clear, goals known to everyone. Add to this the strength of leftist and rightist factions that already exist within the Legco; figures such as Hsueh Hao-jan [5641 3185 3544], who does not operate according to the rules; and independents who are often devious beyond all expectations—who could not believe that next year's Legislative Council will be a lively affair!

However, there is no need for anyone to worry that the Legco will be out of control or to worry about the government, because authorities will increase the number of functional group seats from the present number of 14 to 21. Even more ingenious are the newly established groups with different organizational origins that are by no means closely linked with the grassroots; rather they are business and professional organizations with ties to the upper classes. These are organizations that are easily controlled by the government and that are not a very great voting force, so there is no need to worry about them getting out of control. Thus it looks as if in 1991 there will be a large share of ballots from three-tiered elections, 17 ballots from appointments, and 21 ballots from functional groups. In fact, what does the Hong Kong government have to fear from changes in the political scene from 1991 to 1995?

The Legislative Council is the highest legislative organ in Hong Kong, and many figures eagerly desire to join the organizational structure. Yet perhaps our not-yet-sovereign state will in fact disdain to pay them great attention. Although the Basic Law stipulates that the Legco is a direct vehicle for the transition, to date China has yet to officially recognize the status of the Executive and Legislative Councils. Around the time of last year's 4 June events, the two councils attempted to break the impasse, hoping China would agree to recognize them. However, the mainland was still not psychologically prepared for this. The two councils latest demand is to have a meeting in January 1991, although they have met only with discouragement thus far.

In reality, the two councils are to be pitied, because the status of the municipal administration, which manages the appearance of the city and street vendors, the district municipal administration, and even district assemblies, which are only consultative organizations, has been publicly recognized by Lu Ping [7627 1627], deputy director of the Hong Kong and Macao Affairs Office of China's State Council. This gesture ensures that they will make the transition smoothly. The position of the Legislative Council is above that of the two municipal

administrations and the district assemblies. How can accepting such treatment not depress assembly members? It is necessary to keep a steady eye on whether the Chinese side accepts the current Hong Kong group in order to see whether the political future will have continuity, or even whether Hong Kong will continue to flourish and be stable.

As for this impasse, high-level Hong Kong government officials still harbor an optimistic attitude, believing that eventually it will be possible to break this impasse in the mainland Chinese mind. It is only a question of time, just like the recent strengthening of contacts between Chinese and Hong Kong officials. This is because there are some matters that the Chinese must deal with and accept, otherwise the consequences could not be borne or resolved.

Mainland 'Interference' in Politics Intensifies

91CM0176A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 230, 16 Dec 90 pp 22-24

[Article by Lin P'ei-shan (2651 3805 3790): "The Chinese Side Fights to Participate in Hong Kong Affairs"]

[Text] Not long after he became chief of XINHUA NEWS AGENCY's Hong Kong bureau, Zhou Nan used the passing of the Basic Law as an opportunity to hold a press conference, in which he did not take any questions, but only made a statement. Aside from the declaration of the promulgation of the Basic Law, symbolizing Hong Kong's entry into the post-transition period, there were three points which received considerable attention: redefining the conditions for governing Hong Kong and its residents on the basis of "Love Hong Kong, Love China"; steering Sino-British relations in the second phase of the transition period (i.e., post-transition) into even closer cooperation, and increasing mutual consultation efforts; and, starting now, actively creating conditions to permit those who love the motherland and Hong Kong to increasingly participate in all aspects of administrative life in the Hong Kong community. The latter two points are particularly important guiding principles for the XINHUA NEWS AGENCY in Hong Kong during the transition period. If the reader can appreciate these two principles, then the strategic plan of the Chinese effort can be seen in several recent events.

In the post-transition period, the Chinese want to obtain the right to speak on important Hong Kong matters, and they want the British Hong Kong government to consult them on these matters. This point was strongly stressed by both Zhou Nan and Ji Pengfei, the recently relieved director of the Hong Kong and Macao Affairs Office. Not only did the Chinese side stress it, but they also presented specific demands to the British. When Francis Maude, former British deputy foreign minister for Hong Kong Affairs, visited China this past July, it was the first formal visit by a Western cabinet-level minister since the 4 June incident. Passing through Hong Kong after his

visit to the mainland, he privately expressed his agreement with the Chinese that, on important matters, the Chinese and the British would engage in secret diplomacy and not criticize each other publicly. The Chinese would concede to refrain from open criticism, but the British concession—that the Chinese would be consulted in important matters—was greater.

It is actually hard to define what "important matters" will be during the transition period. Naturally the Chinese hope to maximize the scope of the term, however, even though the big boss (Britain) agreed to consult the Chinese, the Hong Kong government charged with administering to Hong Kong expressed reluctance to let them become involved in every trivial matter. In the face of such contradictions, there has been minor mutual activity between both sides in recent days.

Two more prominent examples are the arguments over the new airport and Zhou Nan's statement that Hong Kong is an "outpost."

The Chinese side has expressed much skepticism on the airport question and dragged their feet about taking a stand. Of course this is linked to the fact that Hong Kong has yet to bring up financial and resource proposals. However, Hong Kong hopes to circumvent the Chinese and resolve some of the major questions that will extend beyond 1997, such as the right to British abode and human rights. The Chinese have opposed this, but rather ineffectually. Should the airport lack Chinese approval, the Hong Kong government's financial burden will become heavier. If the Chinese do not use this opportunity to significantly show their colors to the Hong Kong government, it will be difficult for them to gain any respect. The result of these sentiments was a request for the Chinese and the British to hold a meeting of experts to discuss airport affairs, and criticism of the possibility that the Airport Authority would become its own "little kingdom." Their objective was to get someone into the Airport Authority.

Zhou Nan's outpost statement, aside from being a warning to the Joint Committee and Hong Kong residents, also signals to the Hong Kong government that it should restrain such "anti-China" activities. The Hong Kong government, while not wanting to see the Joint Committee expand its role, has also been consistently reluctant to acquire a bad name as the suppressor of "lawful" activities.

Aside from these two glaring examples, the writer would like to submit a smaller, somewhat amusing example, from which one may detect the mutual contradictions in "governing Hong Kong."

Construction of the new airport will extend past 1997; if the outpost is not eliminated by then, it will cost the post-1997 Special Administrative Region [SAR] government much work. Therefore, although the Hong Kong government neither wants to see nor hear statements from the Chinese side, the Chinese side does have grounds for paying reasonable attention to things. With

the retirement of Public Works chief Kuo Wei-k'ai [6753 0251 2818], the Hong Kong government has decided not to promote from within, but rather hire from outside; the Chinese also oppose this.

The mouthpiece of the Chinese side, WEN WEI PO, used an editorial to point out that the Public Works Department was responsible for the highly confidential unified planning of major capital construction projects in Hong Kong. This included the power to request studies by consultant firms, project bids and results, project quality control, blueprint evaluation and storage, supervision of projects' progress, and assessments of the qualifications of professionals concerned. If the department is headed by a Hong Kong resident, Hong Kong's requirements would naturally receive more consideration, using open data and soliciting the opinions of Hong Kong's people. If there is a pro-British department, one should consider the chances that engineering and material provisions would fall into the hands of British firms.

On the day the editorial came out, the Hong Kong News Office immediately announced that the works chief had not yet been selected, which was an obvious response to the WEN WEI PO editorial. One can see the importance the Hong Kong government attached to the editorial.

This writer does not concur with the WEN WEI PO analysis. He does not disagree that Hong Kong would not favor a British company doing a lot of business, however, this favoritism would not disappear just because the Hong Kong government withdraws. The Public Works Departments is small precisely because of favoritism towards British citizens or companies. Even if someone from China heads the department, would he refuse to listen to orders from the Hong Kong government hierarchy in order to keep his job? Would he offer open data and solicit public opinion of his own accord? Such a China appointee would benefit the Chinese side. It is credible that he could understand Chinese newspaper articles, and the position of the mouthpiece of the Chinese side in particular. The Chinese side could draw him close by pointing out his future prospects in Hong Kong after 1997, but this could not have much effect.

This example points out that, when Hong Kong selects administrative chiefs in 1994 and 1995, the government might consult the Chinese view in consideration of the transition and transfer of power in 1997. Although there are still six years between 1990 and the transfer of sovereignty in 1997, the Chinese are champing at the bit, hoping to influence appointments to higher levels of the Hong Kong government. The Chinese hope that the "major matters" that concern them will not be limited to those connected to transfer issues.

To cite another example, bureau officials at XINHUA's Hong Kong bureau have stated that Hong Kong should consult extensively with residents in the New Territories when drafting municipal programs and regulations.

Public opinion shows great dissatisfaction with such Chinese interference. In the past the Chinese have used either direct or indirect methods to inject themselves into Hong Kong matters, such as the reform of the conference delegate system, the right of abode, human rights, and capital construction. The people of Hong Kong were not willing to accept the Chinese position, although they agreed that the Chinese had a right to be interested in these matters. However, the drafting of plans and provisions is an issue of environmental improvement for the Hong Kong government, and it has produced conflict with the interests of New Territories landowners. Not only does this issue not concern the transfer of authority, it also has no relationship to Chinese interests; thus statements by the Chinese side appear to be interference in Hong Kong's internal affairs.

Of course, the Chinese side explained itself by bringing up the Basic Law and the Sino-British Joint Declaration, but this made matters even worse. Bringing out the Basic Law and the Joint Declaration to support the Chinese side's demand that the Hong Kong government discuss matters with New Territories residents and their looking after the interests of these original residents smacked of ignoring the Hong Kong government, or even violating the Basic Law and the Joint Declaration, a serious charge. The Hong Kong government's response stating that the Joint Declaration had not been violated and that it did not understand the reasons for the Chinese side's actions is already an overly vague reaction. If the Hong Kong government had more courage, it could bring up much stronger opposition diplomatically.

Chinese officials say privately that New Territories circles have been lobbying them vigorously, and that they must reassure these people; the Chinese side is not really interfering in Hong Kong's internal affairs. The Chinese side's statement has been very discreet, stating only that the Hong Kong government should communicate more with the people in the New Territories.

Regardless of whether this explanation fits the Chinese side's original intention, one can see from these matters that the Chinese side has not avoided making statements on local matters. Active requests by the New Territories residents notwithstanding, were the Chinese to consider interests in Hong Kong's internal matters to be a base line that could not be crossed, this would not have happened. However, the Chinese side considers the Joint Declaration and the Basic Law, rather than such interests, to be the base line. Thus they have the right to make statements about any slight conflict with the Joint Declaration or the Basic Law, even when the matter barely touches on either one. Undoubtedly this is equivalent to telling Hong Kong's people that the Chinese side has the right to be concerned with everything in Hong Kong. Think about it: Hong Kong's education system, taxation—there is no item that is not referred to in the Basic Law or the Joint Declaration. Some pro-Chinese even say that revising the land policy for the New Territories affects administration after 1997; such talk is extremely

dangerous, because current Hong Kong government policies for items such as housing, medical care, and commerce are not expected to remain in effect after 1 July 1997.

The Chinese attitude of "questioning everything" is unequivocally revealed in these examples from the Public Works Department and in drafts of municipal regulations.

Another rationale for the Chinese side's interest in Hong Kong matters is that they are presently the only organization that can represent the interests of the post-1997 SAR. At the end of last November, Chief Secretary Ford gave a speech on behalf of Hong Kong's governor in which he mentioned, "In recent days, we have been singled out for attack for making decisions on behalf of the future government of the Hong Kong SAR. Such criticism ignores the purposes of the Joint Declaration and the Basic Law. Based on these, although sovereignty and its symbols will change, the systems, laws, and personnel should have continuity. Major, long-term decisions of extreme importance to Hong Kong's future prosperity will be a common task for all our colleagues who are the backbone of 1997 and the SAR afterward."

Ford's words were rather tough. He refuted the Chinese charge that Hong Kong's government was making major decisions for the post-1997 SAR government. He also took the opportunity to say that if Hong Kong extends personnel beyond 1997, then the Chinese should have confidence in these people. If the Hong Kong government had not been under heavy pressure from the Chinese recently, it would not have reacted so strongly. Regardless of whether this is the poignant moaning of a lame duck, in the face of such strong pressure, there is not much room for bargaining. Yet at least it shows that the Hong Kong government still hopes to have an attitude of independent, autonomous action.

Ford's logic is not without its flaws. Those officials serving in the Hong Kong government may well be the backbone of the post-1997 SAR, but those currently in charge are high-level people assigned by Britain, and their loyalty is to the interests of the British crown. In principle, the leadership hierarchy of the post-1997 SAR government would be made up of Hong Kong people whose loyalty is to the Chinese and to the people of Hong Kong. Under this broad principle, decisions that are right now may not be right after 1997. However, in addition to pointing this out, the spokesman for the Chinese side went on to maintain that the only possible representative for post-1997 SAR interests is the Chinese government. Of course, if this is acknowledged, then the Chinese side can claim to be acting in the interests of the SAR, and it can set out to change any current Hong Kong policy on the basis that it violates the SAR's interests.

From the above examples one can see the increasing scope of China's involvement in major Hong Kong matters and how it supports its conduct concerning

Hong Kong matters by using ambiguities in the Joint Declaration and the Basic Law, and citing the interests of the SAR.

In recent days, one has felt the renewed high tide of Chinese involvement; not only are they expanding the range of subjects they speak on, but also various pro-Chinese bodies are being mobilized for action. This complements Zhou Nan's words, "From now on, we must actively create conditions to let those Hong Kong people who love the motherland and Hong Kong to become increasingly involved in Hong Kong's community life and every aspect of administrative work."

In economics, a "One Nation, Two Systems" Economics Research Center was planned and organized, led by An Tzu-chieh [1344 1311 0094], former chairman of the Basic Law Hearings Committee, Joint Declaration Draft Committee members Li Kuo-pao [2621 0948 1405] and Huang Pao-hsin [7806 0202 2845], and Hearings Committee General Secretary Liang Zhenying [4731 2182 5391]. The center has already begun operations.

In law, under Shao Tianren [6730 1131 0117], former member of the Basic Law Draft Committee, and others, pro-Chinese elements who had joined local legal circles organized the Hong Kong Legal Studies Society of the Chinese Law Association, in order to study possible conflicts between Hong Kong legislation and the Basic Law.

Politics have exhibited greater pluralism. Hong Kong's delegates to the National People's Congress are discussing how to strengthen their positions, increase their participation in Hong Kong affairs, and are demanding Hong Kong recognize their status and give them VIP treatment during airport departures and arrivals.

The Labor Union Association, directed by Ji Pengfei to participate in the 1991 direct elections, not only declared its intention to field two candidates in the Legislative Council direct election, but also expanded its base to enhance closer contact with the local masses. This included opening hospitality stations at To Kwa Wan and Jordan, as well as a Workers' Club at Kwun Tong.

The New Hong Kong Alliance, which had been forced to retreat after Hong Kong people assaulted the concept of one committee, two councils, recently resurfaced under cover of the new airport controversy; they have even become more active. In addition to volunteer Secretary Luo Decheng [5012 1795 0015] travelling to Beijing to establish ties, the New Alliance issued a five-page critique of the new airport, attacking the Hong Kong government and the Provisional Airport Authority with fire and vigor, thus setting up another forum concerning the airport.

There is the possibility of New Alliance members participating even more actively in next year's elections for the Legislative Council. Such members include Yang Hsiao-hua [2799 1321 5478], Wang Min-g'ang [3769 2404

6921], Huang Yi-hong [7806 1355 1738], Liang Chen-hui [2733 2182 5391], Ts'ao Hong-wei [2580 1347 1218], Jian Fuyi [4675 4395 7392], and others.

The Chinese side has completed rotational assignments at XINHUA's Hong Kong bureau and the Hong Kong and Macao Affairs Office on the one hand, and on the other, it has actively inserted its people into Hong Kong affairs through issues and personnel. The future will see even more organizations speaking for the Chinese and "supervising" the government in every area. I believe that the crisis in Hong Kong government's control will become even more exposed. As to whether these surrogate groups can become "Hong Kong people" who will really govern Hong Kong after 1997, perhaps this issue will not wait for the people of Hong Kong to become worried about it!

Japan Remains Major Investor in Manufacturing Firms

OW2603191091 Beijing XINHUA in English
1439 GMT 26 Mar 91

[Text] Hong Kong, March 26 (XINHUA)—The total investment in Hong Kong made by Japan amounted to 71.4 billion H.K. dollars (9.1 billion U.S. dollars) by the first half of the fiscal year 1990, 28.7 percent more than the first half of the fiscal year 1989.

Hong Kong continues to be Japan's second most important investment destination in Asia, according to Wilfred Wong, deputy director of the Industry Department of the Hong Kong Government at a seminar "Japanese Investment in Hong Kong in 1990s" here today.

He quoted his department's latest survey on overseas investment in Hong Kong's manufacturing industries as saying that the cumulative value of Japanese industrial investment at the end of 1989 stood at 8,642 million H.K. dollars (1,108 million U.S. dollars), representing 29.1 percent of the total overseas industrial investment in Hong Kong.

In this connection, he said that Japan is a close second to the United States, which accounted for 31 percent of Hong Kong's total overseas industrial investment, he noted.

It is learnt that the local authorities have identified 180 manufacturing establishments in Hong Kong, which involve Japanese investment. Of these 180 companies, 100, representing 56 percent, are wholly-owned by Japanese interests, nine, or five percent, are joint-ventures without a local interest, and 71, or 39 percent, are joint ventures involving local interests.

The industries which attract the most Japanese investment include electronics, electrical products, textiles and clothing, and watches and clocks, the industry director said.

In recent years, he said, an increasing number of Japanese manufacturers are involved in Hong Kong's linkage

industries, involving processes which convert imported raw materials into semi-manufactures, parts and intermediates, which are then sold to other manufacturers either for further assembly into finished products or as production inputs.

Hong Kong-Shenzhen Industrial Products Fair Held

OW1103154491 Beijing XINHUA in English
1357 GMT 11 Mar 91

[Text] Shenzhen, March 11 (XINHUA)—Statistics show that the proportion of investment from Hong Kong industrial and commercial circles to the total investment the country absorbed since the implementation of reform and opening to the outside world 12 years ago is 60 percent.

And the trade volume between Hong Kong and China's inland areas increased at an average rate of 38.8 percent a year during the 1979-1989 period. In 1989 the trade volume surpassed 300 billion Hong Kong dollars (about 400 million U.S. dollars).

These statistics were released at the first Hong Kong-Shenzhen Industrial Products Fair, which opened here today.

It was also revealed that in the past 10 years Hong Kong has invested a total of two billion U.S. dollars in Shenzhen, China's first special economic zone.

A total of 253 enterprises—31 from Hong Kong—provided more than 1,000 varieties of products involving textiles, clothing, foodstuffs, light industry, arts and crafts, medicines, electronics, chemicals, building materials, instruments and meters and machinery for the fair.

The fair is expected to be held annually from now on.

Finance Secretary Foresees Faster Growth

OW0603165791 Beijing XINHUA in English
1540 GMT 6 Mar 91

[Text] Hong Kong, March 6 (XINHUA)—Hong Kong's economy would grow 3.5 percent this year, Financial Secretary Piers Jacobs said here today.

Presenting a budget for 1991-92, he said the Hong Kong economy would grow faster this year than in 1990, following the pick-up in economic activity in the latter part of last year.

He estimated capacity constraints and imported inflation, partly the result of weakness in the U.S. dollar, would continue to affect local price levels, and the consumer price index (a) will increase by an average of 9.5 percent in 1991.

The GDP [gross domestic product] deflator was expected to rise by 8.5 percent in 1991, he added.

"This implies a GDP growth rate of 12.3 percent in current price terms. On this basis, Hong Kong's per capita GDP is expected to rise to around 105,000 H.K. dollars (13,400 U.S. dollars), which would continue to rank among the highest in Asia," the financial secretary said.

On Hong Kong's major markets, he said the current weakness of the U.S. economy would continue to dampen Hong Kong's export prospects there.

But, he pointed out that further export opportunities will flow from the robust performance of the German economy, the improved economic situation in China and the dynamic growth of the Asia Pacific region generally.

"I expect that our export markets will continue to diversify, even though the United States will still be our single most important market," he noted.

The financial secretary said Hong Kong's re-exports are expected to remain strong in 1991. He predicted a 15 percent increase in the business this year.

"This reflects both the importance of Hong Kong's role as a regional entrepot and the sustained development of outward processing activities across the border," he said.

He forecast Hong Kong's domestic exports to grow by 2.5 percent in 1991.

Exports of services are expected to grow by six percent in the new year, according to the financial secretary.

Jacobs said imports of goods were forecast to rise by 10.7 percent.

In the domestic sector, private consumption expenditure was estimated to increase by 3.5 percent, he noted.

Overall capital investment for the Hong Kong economy was forecast to increase by 4.6 percent.

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