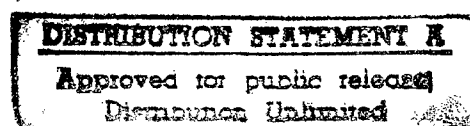




JPRS Report



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Understand Capitalism, Strengthen Faith in Socialism

91CM0444A Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 5, 5 May 91 pp 6-11

[Article by Yu Xinyan (0151 1800 6056): "Understanding International Monopoly Capitalism, Strengthen Faith in Socialism"]

[Excerpts] Institutions of higher learning are shouldering the important task of educating and training talents for the next century. The quality of our students, the degree of their consciousness, their moral maturity, their criteria for action, and particularly their capability of seeing through all hostile plots and intrigues at home and abroad and of protecting the interests of the Chinese people. All these are matters which have a bearing on the all-important concern for the future prospects and the fate of our nation. It is for this reason that it is absolutely necessary to give highest priority to moral education at our universities and colleges. [passage omitted]

Recognize Clearly the Working System of Monopoly Capitalism, Resolve the Innermost Ideology Problem

Among comrades engaged in ideological-political work, a much discussed topic is now how to resolve the innermost ideology problem. Many comrades have written articles approaching their research from a variety of angles, and have devoted much energy to this question. I, too, am exploring this problem. What, then, is this innermost problem? One view has it that the innermost problem is the concept of democracy and freedom. This is the conceptional approach. However, conceptional matter is after all still derived from the realities of the situation, and, moreover, as far as our youths are concerned, their concepts frequently change very quickly and widely, and are rather unstable. What, then, is the most fundamental problem? In my opinion it is still primarily the question of whether China shall steadfastly continue along the socialist road. Expressed from an opposite direction, it is the question of whether China could achieve prosperity and strength if subjected to "peaceful evolution" and taking the capitalist road. Many people cannot find an answer to this question. If this question cannot be resolved, there is no true resolution for the whole series of other ideological questions. We in the end will have to risk a solution in one form or the other. I heard that some students in Jilin Province said that if we still had the Japanese in Changchun, construction work would definitely be better than now. They based this assertion on the fact that the buildings of the provincial government had been those of the former Japanese gendarmerie headquarters; the buildings of the Jilin provincial party committee, built by the Japanese, had housed the former headquarters of the Kuantung Army; and the Changchun railway station had been built 50 years ago by the Japanese. Although we have built factories, schools, residential houses, no important building has been constructed since what the Japanese made. If we still had the Japanese in occupation of

Changchun, the population of Changchun would be only 20 percent Chinese because, by 1945, 60 percent of the citizens of Changchun City already were Japanese. The Japanese would certainly not build anything for the Chinese. When the Japanese were in occupation of Changchun, the Kuantung Army headquarters and the gendarmerie headquarters were extremely well built buildings, but the palace of the puppet emperor of Manchukuo was in a broken-down, two-storied, small, foreign-style house which had never been repaired. Even that kind of an exterior they did not care to refurbish. What kind of houses could the Chinese still aspire to occupy? There are many more similar questions. Thus ask yourself, could China also attain prosperity and strength by going down the capitalist road.

Everybody acknowledges that we have already embarked on the socialist road, but there are people asking whether that was a fortuitous decision and whether it would have been possible not to go down that road. An accurate understanding of this question may be gained by approaching it from a variety of angles. For instance, historically, during the 109 years from the Opium War of 1840 to the founding of New China in 1949, we have to say, China entered bit by bit into the capitalist system of the world. During this process, from the Opium War to the later Taiping Heavenly Kingdom movement, the Reform Movement of 1898, and the Revolution of 1911, the road that China chose was the capitalist road, but it was a road that led China astray. Comrade Mao Zedong said, imperialism will not allow it, by which he meant, imperialism will not allow China to develop along the capitalist road into a developed capitalist country, and that does not preclude China being allowed to become a colony within the capitalist system. In all the 109 years since 1840, when China began to have some modern industry, and including all development until 1949, China's total industrial fixed assets were only the equivalent of 12.8 billion post-liberation yuan RMB [renminbi]; it was that pitiful. On the other hand, our present industrial fixed assets are somewhat over 1,300 billion yuan. This is the achievement brought about in the 40 years since the founding of the PRC, and this is the conclusion that we derive from an historical comparison.

Judging by the present world situation, imperialism still does not allow so large a developing country as China to become a developed country. During the five years from 1985 to 1990, the developed countries were nominally granting aid and loans to the developing countries. Actually, from the developing countries, the developed countries gained interests and trade balances from exchanges at unequal value. As far as the state of the currencies are concerned, the currency taken away nullified the loans nominally given every year by the developed countries. In this way they took over \$50 billion every year from the developing countries. The actual result of the currency operations was an inverted flow. The entire global North-South disparity is now broadening and not narrowing. Of course, in the process of broadening the disparity, there might also have been

some individual instances of support for the development of certain small places. Even though this is so, a full accounting shows that as a whole the North-South disparity is still growing larger and larger. This question cannot be considered simply as a question of morality and justice, it also cannot be blamed on the character of certain individuals. It is not a problem that can be solved by exchanging some leader and putting forth some new proposal, it is rather the result of the working system of monopoly capital; it is the demand of monopoly capital development. The so-called capitalist is nothing else but the embodiment of capital. The politicians of the capitalist class are also embodiments of capital, and to understand their behavior, it is of course necessary to analyze what pronouncements they make today, what treaties they sign, and what policies they decide upon. However, to understand what is really hidden behind all these pronouncements, treaties, and policies, there is only one way, namely to follow the working system of the capitalist movement and to heed the demands of capital itself. In this way it is easy to understand that the United States cannot but pursue hegemonism, that there is no other way for them than to pursue hegemonism, because as far as U.S. capital is concerned, it is a question of life and death for them. There is not the slightest justification from the standpoint of morality or justice for the U.S. military action in Panama, but internally within the United States it raised Bush's popularity rating. As to the U.S. economy, there is a country of over 200 million people owing a national debt of over \$1 trillion so that per capita each person owes over \$10,000. Public finance is in the red to over \$500 billion, and inflation, we must say, is an unmanageable disaster. However, the United States is still getting along quite passably. What is the mystery in that? A most important point is that the United States is the world's hegemon, and the U.S. dollar is the world currency. Banknotes issued by U.S. banks are brought to you here to buy things; the Americans get their purchases, and you get to keep their banknotes. Because the U.S. dollar is not only circulating in the world market and is also the tool of circulation, it has also become a worldwide means of hoarding. There are some people in China, e.g. some teachers at universities, who hold U.S. dollars, keeping them at home locked up in drawers. That money is like sediment, withdrawn from the flow of circulation. How much money of this kind is there in the world? Some economists estimate it to be no less than \$500 billion. These \$500 billion have been issued by U.S. banks, but are not returning, and as far as the United States is concerned, it thus got \$500 billion worth of goods for nothing. That allows the United States to maintain itself, and there is also no currency inflation visible in its domestic market. But there is one condition, and that is that the United States be world hegemon. Nothing will happen as long as it is hegemon. Just like the Ning Guo Fu in the "Dream of the Red Chamber," it did not matter how much money was owed, as long as nobody came to confiscate the family property, or as long as money is owed and nobody dares to ask for its repayment, or as long as a good front is maintained; then nothing untoward will happen. But

on that day when the good front cannot be maintained any longer, alas, the whole edifice will topple, and everything will be finished. If the United States will at any time cease to be the world's hegemon, and if the U.S. dollar will no more be world currency, people will stop collecting U.S. dollars, and rather collect marks and Japanese yen. At that time, all the U.S. dollars that had lain as dead sediment will return to the United States, and even if only part of it returns and demands goods in return, the U.S. economy, and its political and social structure will collapse. To prevent this collapse, the United States must remain world hegemon, and it cannot help but engage in acts of hegemonism and in actions for which there is no true justification.

When the imperialist powers used their gunboats to blast open the gates of China, 150 years ago, did they bring civilization to China? Did they hope China would also become a developed country? Of course not. In 1840 the "Communist Manifesto" had not yet appeared. At that time the imperialist powers divided up the world; they scrambled for markets. Whatever country seized a market, thereby increased its profits. Of course, they did not want China to also become a developed country, as they would otherwise add a competitor and eliminate a target for plunder. They wanted China to remain forever their slave. Today, the old colonialism has become out of date. Politically, it is impossible for them to convert another country completely into a slave country, but the economic exploitation has not changed at all. The monopoly capitalist class has its grip on the world's marketing network and can compel undeveloped countries to accept exchanges at unequal value. African coffee is sold to Europe at \$1.00 per kilo, but in an ordinary coffee shop in Europe, one cup of coffee is sold at \$2.00. The African countries are completely helpless. The United States attracts skilled professionals from Third World countries, thereby saving for the United States the need to spend on their education. In this respect alone, the United States exploits other countries to the value of \$5 billion a year. As to China, there is a strategic research organization in the United States which has compiled a research report on U.S. strategy during the 1990's and during the early years of the 21st century, in which the opinion is expressed that China presently does not constitute a real threat for the United States, but that China is a large country and will accomplish its modernization in the next century and will then possibly become a real threat to the United States. The American countermeasure is to adopt a policy of soft blockade against China. A hard blockade will not do; it has proven ineffectual in the past. However, they again will not allow China to develop very rapidly, as this would be detrimental to the United States' interests, and they will continuously cause China much trouble and create obstacles to China's modernization. Japan's monopoly capital class is probably thinking along the same lines. A Japanese engaged in strategy research said, present world trend is for each single region and each single city to try to link up independently with the world economy, and that China will have to do the same. This is the era of

cosmopolitanism, and patriotism is an outdated concept. Someone countered by pointing out three events: First, the United States recently enacted a flag law, to promote patriotism; second, on the occasion of the ascension of the emperor to the throne, Japan indulged in unbridled patriotic propaganda; third, Germany took the occasion of German reunification to also indulge in unbridled propaganda for German national consciousness. All three events contradict the mentioned assertion of the Japanese. When asked for an explanation, the Japanese strategist said, the world needs someone at the extreme top, and we, the Japanese, Americans, and Germans, are justified in our talk of patriotism because we are at the top of the world. Your position, i.e. China's position, is not up to it yet, and you should not really talk of patriotism. In their pursuit of hegemonism, not only will they not want a large socialist country like China to become prosperous and strong, but even in the case of a country like India, they are afraid it might become prosperous and strong. If a country with a population of 800 million would achieve an average per capita national output value of \$4,000 to \$5,000, i.e. one-quarter of America's average per capita national output value, its aggregate national strength could effectively contend with the United States in the world. By then, prices for the world's primary products and technical products would undergo changes, and the United States would find it difficult to get along. Its crafty method of exchanges at unequal value would then no more be able to do the trick.

The working system of monopoly capitalism cannot be understood in concepts of people who have only \$3,000 or \$4,000 savings in their pockets. A monopolistic consortium has \$10 billion of assets, not in cash, but in its oil fields, banks, factories, and such installations. If its banks should get into financial trouble and have to close down, the consortium might lose as much as \$5 billion at one stroke. As long as the capital is properly circulating, its manager is the big boss, but once a hitch occurs in the circulation, all could be lost and go to ruin, and the said person will become a beggar. It is therefore necessary for them to maintain a certain momentum in their capital operations. Considering the situation solely from the standpoint of the class interests of international monopoly capital, it would certainly be best, either, as Liu Xiaobo [0491 2556 3134] said, to have China remain a colony for 300 years, or, as Fang Lizhi [2455 0536 0037] said, to split China into parts. Theirs is not merely casual talk, but said to suit the needs of imperialism. None of the imperialist countries can swallow up China in one gulp so each now seeks out its own set of traitors and its own set of running dogs to get China to disintegrate and fight civil wars. That would naturally make it impossible for China to achieve its modernization. As we firmly insist on the socialist road, we are actually insisting on independence and autonomy in our own affairs. Even if imperialism would cause disturbances, we can overcome all difficulties and gradually and in arduous effort advance toward prosperity and strength. If we were to abandon this road, we would

become someone's vassals, and a country of eternal civil wars and disintegration. In whatever manner they would want to restrict us in one of these ways, we would then have no strength to retaliate, but would for a long period of time have to remain only a China in utter darkness. This is not an imaginary hypothesis, but the inevitable conclusion of the historical development. Of course, as we say this, there will be people who ask about Hong Kong which has been a colony and has achieved prosperity and strength. Is not Taiwan also prosperous and strong? With just a little historical retrospect, it is easy to reply to these questions. That Hong Kong flourished for a time after it became a colony in 1840 and developed from a fishing village into a trading port was mainly due to its reliance on the opium trade. When the opium trade was banned at the beginning of this century, and, furthermore, other ports were opened up along the coast, Hong Kong lost its usefulness, and was not prospering any further. Even into the 1930's, it was no equal to Tianjin, Shanghai, or Guangzhou. On the outbreak of the War of Resistance Against Japan, Japan occupied Tianjin, Shanghai, and Guangzhou, and the West could only trade with the interior of China through Hong Kong, which again brought prosperity to Hong Kong. In 1941 the Pacific war broke out, and Hong Kong ["fragrant" port] fell into the hands of the Japanese. Although still a colony, it rather became "stinky port" and "dead port." We cannot therefore say that being a colony brings prosperity. The next period of prosperity for Hong Kong came in 1949, after liberation of the mainland. China's industry developed, and within 40 years China's fixed assets increased from somewhat over 12 billion yuan to over a trillion yuan, i.e. more than 100 times. When the West imposed a blockade, this large country of China had to direct its trade abroad through this little territory of Hong Kong. Hong Kong was certainly successful in accumulating wealth thanks to its location on the sea. If China had not been socialist, Hong Kong could not have prospered. We should, therefore, say that Hong Kong's prosperity is a manifestation of the superiority of socialism, and not a manifestation of the superiority of capitalism. Since Hong Kong will revert to China in 1997, somebody finally came up with the idea of finding another island to set up another Hong Kong. There are many islands in the world that are better endowed by nature than Hong Kong—one could easily find 10 such islands—but although an island may be easy to find and money might be easily found, a capitalist will immediately ask, whom is one to trade with from there? Once you ask that question, everybody will be quiet about finding another island. In brief, it remains a fact that Hong Kong could only prosper because of its reliance on the superiority of socialism. It is the same with Taiwan. With a population of 12 million people, it had been the recipient of two investments, one was the 3 million ounces of gold which the KMT brought over from the mainland, and the other the \$2.6 billion of American aid. These two amounts together put into a territory inhabited by somewhat over 10 million people, made the per capita fixed assets immediately shoot up. If the mainland had not been liberated, these two large sums of

money would never have reached Taiwan. The American investment in Taiwan was directed against mainland China. If the mainland would have gone the way Taiwan went, it would have needed billions and billions of U.S. dollars in foreign investments. First of all, there would be nobody willing to spend that much money, and, second, also nobody in the world is capable of raising that much money. There was, therefore, absolutely no possibility that these two conditions could have been fulfilled. Would it then have been possible for the mainland to follow the road that Taiwan followed?

Some say, Eastern Europe is now suffering "labor pains," but will soon be much better. How long will these "labor pains" last? Could they last for 10, 20 or 40 years, possibly without any improvement at all? Nobody has the answer. Some countries which have all along been on the capitalist system are today still in a backward condition after several decades; the conclusion that capitalism is better than socialism cannot possibly be drawn.

I have cited the above examples with the special intention of proving that in order to solve the innermost ideological problem, it is most important to gain a clear picture of the current working system of capitalism. Only by clarity on this point can we gain the firm conviction that there is simply no other road for China but the socialist road. Only socialism can save China, only socialism can develop China. Advancing on any of the other roads cannot save China and cannot develop China. To arrive at this understanding requires the support of much factual knowledge, because mere words will not convince people. At present there are 41 of the poorest countries in the world with per capita national output values below \$200. With the exception of Laos, all the other 40 are capitalist. If you say capitalism leads to prosperity, why did it not bring prosperity to these countries. The United States often proclaims loudly that it values humanitarian interests above everything else. In Africa 50,000 people are starving every day, while American grain cannot be sold; can you not give some grain! That could be done, but they don't do it. On the contrary, the U.S. Government issued an order to pay subsidies to stop cultivating of such-and-such pieces of land, for fear of overproduction that would depress grain prices. Here subsidies are paid to stop agricultural production and there people die of starvation. This utmost esteem of humanitarian interests and human rights is all false. What humanitarianism, what democracy, and what freedom of the press are there? Their picking up the big stick of human rights to attack us is really not to protect their kind of human rights. During the Cultural Revolution, when human rights were so severely violated, when no respect at all was paid to the constitution, and when a state president was "rectified" to death, did the United States consider imposing sanctions? Not at all! The United States did not impose sanctions on China. At that time the Soviet Union was their main adversary, so they only rebuked the Soviet Union and closed their eyes to "human rights" in China. It is,

therefore, only when required by the interests of the monopoly capitalists that they wield the big stick of human rights.

They approach issues from the standpoint of interests of the monopoly capital class, while we approach issues from the standpoint of the interests of the Chinese people. That shows the fundamental contrast. Moreover, we are placing particular emphasis on the consideration of the realities of a situation. This point is of special importance for our young intellectuals. The way people who espouse bourgeois liberalization speak of us is completely absurd. They say the disparity between China and the world is increasingly widening, and the longer things go on in China, the worse things become. However, the common people do not feel like that, and actual conditions are also certainly not like that. How can you say the disparity is widening when after 40 years of effort, production volume of many Chinese products leapt from tenth, 20th or lower world rank to first, second, third, and fourth place in the world, and some products have achieved advanced world levels and are still improving? However, people who are for bourgeois liberalization attack us because of the fact that the exchange rate for the RMB was adjusted downward. What was the reason for the Japanese per capita national income all of a sudden moving up from the former \$11,000 to over \$16,000? The reason was that the value of the Japanese yen had appreciated. Several years ago, the rate of exchange for \$1.00 was 240 Japanese yen, now it is 140 or 150 yen. If output value is computed according to U.S. currency, it appears as if there had been a rapid development in Japan, but actually the increase of production was insignificant. On the other hand, the exchange rate for China's RMB has all through the years been adjusted downward. Originally, the exchange rate was 1.45 RMB per \$1.00, later 3.70 and 4.70 yuan per \$1.00, and now it has become 5.20 yuan per \$1.00. In this way, although commodity production has doubled and trebled, it does not show when computed in U.S. currency. Does that mean that there has been no economic development? Not at all, there has indeed been development. There is more steel, more coal, more iron, more cotton, and more food consumption. That is the truth. These are not false claims. There are now many economists in the world who believe that it is not scientific to compute a country's economic strength using the exchange rate of the U.S. dollar. International economic organizations now have a new method of computation, namely to compute according to actual purchasing power. If a tea cup has a \$3.00 value in the United States and is worth 2 yuan RMB in China, the 2 yuan RMB must be taken as equal to \$3.00 in value. Computed in this way, China's national output value is most likely \$1,000 to \$1,600 per capita. Recently, a Chinese student in the United States by the name of Wen Di [5113 6611] and an official of the Chinese organization for teaching materials by the name of Wu Jisong [0702 2817 2646] carried out computations, the former in the United States and the latter in Paris. They used the prices of several hundred items that

are daily necessities, such as clothes, food, shelter, and transportation, for a statistical computation of how much an item costs in RMB in China, how much in dollars in the United States, and how much in francs in France. In their computations they arrived at the conclusion that the purchasing power of 1 yuan RMB was equal to that of \$1 and of 5 francs. Now that 1 yuan RMB is equal to \$1, where have the other 4.20 yuan RMB gone? That is where the exchange at unequal value comes into the picture. The undeveloped countries of the world, when trading with the developed countries, have no other way than to tolerate this exchange at unequal value. Because they, the developed countries, have high-tech products, we are compelled to buy from them. If the developing countries can truly take off in their economic development, their currencies will appreciate in value, and output value calculated according to the U.S. dollar will quickly rise. Just like in Japan now, where the output value for a certain year as computed according to the U.S. dollar rose 40 percent, while in actual fact it had risen by not even 10 percent. If these just principles are clearly explained on the basis of true facts, people will have no difficulties in arriving at accurate assessments. [passage omitted]

Ideological Situation Viewed

91CM0477A Hong Kong CHAO LIU [TIDE]
in Chinese No 51, 15 May 91 pp 13-14

[Article by Lin Yang (2651 2799): "He Jingzhi and Yang Baibing Loudly Proclaim Their 'Antagonism to Peaceful Evolution'"]

[Text] Deng Xiaoping's "double-handed strategy" has presently created a peculiar situation on the mainland. As regards economic strategy and theory, the economic reform faction has vigorously attacked the views of the hardliners, and has gradually gained the upper hand in the power play. Quite different from the "anti-Leftists" in the economic field are again the aspirations and interests of those who still maintain the "anti-Right" ideology. Apart from Li Ruihuan, leading cadres in the ideological field, such as Wang Renzhi [3769 1804 0037], Xu Weicheng [1776 1919 6134], He Jingzhi [6320 2417 0037], Lin Mohan [2651 7817 3211], Liu Baiyu [0491 4101 5038], and backstage powers, such as Hu Qiaomu and Deng Liqun, are all men of the extreme Left.

A friend among Beijing's intellectuals told me that these are still the doings of Deng Xiaoping, a result of the "lessons" learned from the 1986 student unrest and the 1989 democracy movement. He wants to uphold "raising high the 'Left' hand in politics," of effectively controlling the intellectuals and ideology, and calling on the "Leftist oldsters" to guard the political ramparts. However, in the economic field, he finds use for men like Zhu Rongji, that is, cadres in high places who are fully devoted to the spirit of economic reform. That is his other hand: the "Right" hand of economics.

He Jingzhi's Criticism of Hu Yaobang and Zhao Ziyang

Peng Zhen, Wang Zhen, and other oldsters of the "extreme Left" emphasize that at the present stage the dangers of "class struggle" and "peaceful evolution" exist. Cadres in charge of "ideology" work are also following them and are making great efforts in advocating "opposition against the 'Right.'"

Information from Beijing intellectuals has it that the Secretariat and the Propaganda Department of the CPC Central Committee recently handed down a set of "study materials," which contained articles or speeches by He Jingzhi, Xu Weicheng, Lin Mohan, Wu Lengxi [0702 0397 6007], and Yang Baibing. He Jingzhi's long article entitled "Some Views on the Building of Socialist Culture With Chinese Characteristics" (hereafter "He's article") is regarded as the outline that is to guide future cultural work. Before its issue as "study material," it was reviewed by Hu Qiaomu and Deng Liqun, and its final form was passed at an official work meeting of the Propaganda Department.

The basic tone of He's article is criticism of Hu Yaobang's and Zhao Ziyang's connivance with "bourgeois liberalization," and the article emphasizes the present necessity to stress the "anti-Right" direction in the cultural field.

He Jingzhi elaborates on the spread of bourgeois liberalization ideas since the end of the 1970's and mentions Deng Xiaoping's order in the spring and summer of 1981 to criticize "Ku Lian [Unrequited Love]" (a stageplay by Bai Hua [4101 2901]), but that because of the influence of a small group of people in the ideological field, "who had begun to part company with the correct guidance of the party," it had become impossible to bring down the adverse trend by criticism.

At the Second Plenum of the 12th CPC Central Committee in November of 1983, Deng Xiaoping proposed to "eradicate the spiritual pollution" at the ideological front, but "a particular person in a leading position in the Central Committee assumed a negative attitude" and thereby caused the movement for "eradication of spiritual pollution" to die an untimely death. In 1984 some people proposed "silence in both respects," that is to keep mum about opposition to liberalization and to keep mum about "eradication of spiritual pollution." In 1987, Zhao Ziyang assumed an indifferent attitude toward opposition to liberalization, and even, on the contrary, protected, connived with, and supported those who pursued liberalization.

Zhou Yang [0719 2254], Xia Yan [1115 5888], Yu Guangyuan [0060 0342 6678] Reprimanded for Opposition Against the Extreme Left

With the term "particular person in leading position," He Jingzhi referred to Hu Yaobang, who at that time had been secretary general of the CPC. With the term "those who parted company with the correct guidance of the

party," he referred, according to my friend, the Beijing intellectual, to Zhou Yang, Xia Yan, Huang Zhen [7806 6966], Yu Guangyuan, and Hu Jiwei. At that time, Zhou Yang had been deputy director of the CPC Central Committee's Propaganda Department, vice president of the Academy of Social Sciences, and chairman of the Federation of Literature and Art Circles. Xia Yan had been advisor to the Ministry of Culture, vice chairman of the Federation of Literature and Art Circles, and concurrently chairman of the Film Artists' Association. Huang Zhen had been deputy director of the Propaganda Department and concurrently Minister of Culture. Yu Guangyuan had been vice president of the Academy of Social Sciences, in charge of research in Marxism-Leninism. Hu Jiwei had been chief editor of the RENMIN RIBAO. They had all been opposed to the extended attacks on "Ku Lian" and the criticism of liberalization. Zhou Yang and Xia Yan had suffered particularly severely in the cultural revolution, and that had made them particularly strong opponents of the attacks against literature and art.

Zhou Yang had been He Jingzhi's teacher at the Lu Xun Art Institute in Yanan. Before the cultural revolution, Zhou Yang had been deputy director of the Propaganda Department, in charge of literature and art. Under Mao Zedong's paternalistic dictatorship he had led Lin Mohan, Liu Baiyu, and He Jingzhi in purges of many literary and art figures, but after suffering the "catastrophe of the cultural revolution," he experienced a thorough awakening and became a firm pillar of the "anti-Left" faction, while the latter-mentioned persons, however, became the "extreme Left" faction of the "new era."

In 1983, Zhou Yang published a long article in which he criticized the "Alienation of Socialism," and thereby brought on himself attacks by Hu Qiaomu and Deng Lihou who at that time had been in charge of "ideology." On the basis of accusations by these two men, Deng Xiaoping ordered Zhou Yang to write an "internal self-examination." But then Zhou Yang fell seriously ill and only "vegetated" for a few more years in the hospital.

He and Yang Emphasize the Need To "Grasp" Ideology

In the said article, He Jingzhi turned up the "He Shang" [River Elegy] and the "Alienation of Socialism" as topics of condemnation. In the latter effort he particularly aimed at Wang Roshui, Zhou Yang, and Xue Dezhen.

He's article remarks that some people believe that the main contradiction in the field of culture during the primary stage of socialism is the one between enlightenment and ignorance. He emphasizes the even greater importance, therefore, of the ideological struggle between socialist ideology and the ideologies of capitalism and feudalism.

He's article indulges in unbridled propaganda for the theory of class struggle. It proclaims that there is an ongoing struggle in the ideological and cultural fields

between "peaceful evolution" and opposition to "peaceful evolution," as well as between infiltration and anti-infiltration, and between subversion and anti-subversion.

Yang Baibing's speeches for strengthening ideological-political work are also included in the present "study material" for cadres. Yang is secretary in the CPC Central Committee's Secretariat, secretary general of the Military Commission, and director of the General Political Department. He is a cousin of Yang Shangkun, and he was the man in actual command in the suppression of the masses during the 4 June incident.

In his speeches he repeatedly calls on the cadres to be on guard against "peaceful evolution" and exhorts them forcefully to "effectively grasp" ideological work in such areas as news reporting, publishing, television, the theater, etc. He said, in the fight against "peaceful evolution," ideology is the main battle ground, and the area of literature and art is the "forward position" which must be "effectively grasped."

Criticizing the Liu Zaifu Phenomenon and Remembrance of Huang Zunxian

As instigated by Wang Renzhi, He Jingzhi, Xu Weicheng, and Yang Baibing, several of the extremely Leftist magazines published articles in condemnation of writers. They criticized, for instance, the "Liu Zaifu phenomenon." However, apart from the response from a small number of extreme Left elements, literature and art circles displayed indifference toward this kind of political criticism. What is worth pondering, however, is that not long ago Beijing's literary and art circles convened a meeting in remembrance of Huang Zunxian (1848-1905), a meeting that was attended by many well-known personalities. Their respect and admiration for this political reformist of the later years of the Qing Dynasty is of the nature of a "sensitivity to the current times combined with concern for the fate of the country." It expresses a longing for reform and a kind of roundabout protest against the criticism and attacks of the extreme Leftist faction.

Evidence of Reemergence of 'Mao Zedong Fever'

91CM0475A Hong Kong KUANG CHIAO CHING
[WIDE ANGLE] in Chinese No 224, 16 May 91
pp 14-16

[Article by Hsiao Chien (4682 0494): "Tape, Picture Publishers Take Opportunity To Get Rich From Nostalgia—Reemergence of 'Mao Zedong Fever'"]

[Text] "Mao Zedong Fever" Reemerges on Chinese Mainland

Mao Zedong was once a name that was the focus of world attention. Now Mao Zedong has been dead for 15 years, but he is not forgotten by the people in China; on the contrary, many people are now making Mao Zedong

an image for spiritual sustenance and ideological pursuit, and some are even "deifying" him in another form.

In recent years Mao Zedong's works have quietly reappeared on the shelves of mainland bookstores. Stalls displaying Mao Zedong portraits and commemorative badges for sale can be seen everywhere, both in cities and towns and in the countryside. Wafting in the air at street corners and the end of lanes are the songs extolling Mao Zedong that were so frequently heard by middle-aged people when they were younger that they can recite their words verbatim. On the mainland some scholars have begun to restudy and rethink Mao Zedong's thought, works, and life, and especially among teachers and students of institutions of higher learning there has appeared a "Mao Zedong fever."

Two Different Tendencies Toward Mao Zedong: Taking Him Off His Pedestal; Loving and Worshipping Him

In this upsurge what is noteworthy is that there have appeared two completely different tendencies. One tendency is that in the minds of certain people Mao Zedong has been taken off his pedestal, and they revert to the aspect of his life as a common man. However, the view of others is that Mao Zedong has been transformed from the former great leader, for whom "there were cries of 'Long Live,'" to a present-day deity before whom they prostrate and present offerings.

Mao Zedong's entire life is covered in a veil of mystery. Up to the mid-seventies Mao Zedong was always held up as a leader whom the masses of people on the mainland revered. No matter whether it was the spontaneous psychology of worship in people's minds, or the blind behavior of ultra-Left fanaticism, which was the "trend of the times" during the Great Cultural Revolution when Mao Zedong was always regarded as the emodiment of perfection.

After reform began on the mainland, many true facts about China's history came to light, and there was a new evaluation of Mao Zedong's achievements and mistakes. Mao Zedong's image in the minds of his countrymen is no longer that of a sacred person who was perfect and without faults, but is that of a flesh-and-blood person who had human emotions and desires, a person who just had a unique historical flair.

In recent years some biographers and historians on the mainland have written works that shed a fresh light on Mao Zedong's life, revealing Mao Zedong's inner world of joy and anger, sorrow and happiness, and his emotional life. The greater part of these books have become best-sellers. They include *Mao Zedong Taken From His Pedestal*, *The Leader's Tears*, *Mao Zedong and His Secretary Tian Jiaying* [3944 1367 5391], and *I Was Mao Zedong's Bodyguard*. The material in these books all came from people who once worked at Mao Zedong's side. In these books the reader can see that Mao Zedong was a great man who changed China's society, but that he

was also a man who was headstrong, conceited, impetuous, and even weak. However, even if he had weaknesses and shortcomings and made mistakes, in the minds of the great majority of people on the mainland, Mao Zedong was a great figure in China's history. The author of the book *Mao Zedong Taken From His Pedestal* is Li Yinqiao [2621 6892 2890] who for a long time was the chief of Mao Zedong's bodyguard. Mr Li worked for a long time at Mao Zedong's side; he was extremely familiar with the circumstances of Mao Zedong's life. He was also the go-between who helped to bring together Li Nai [2621 4780] (the daughter of Mao Zedong and Jiang Qing) and her second husband, Wang Jingqing [3769 2529 3237]. His work is called the "first flesh-and-blood biography of Mao Zedong," and after publication it sold extremely well and had a great impact.

Mao Zedong Rewrote Love Letter for Bodyguard

Another treatise on Mao Zedong, *Mao Zedong and His Secretary Tian Jiaying*, was likewise warmly welcomed by readers. The author, Pang Xianzhi [6614 0341 4249], originally worked in the political secretary's office of the Secretariat in the CPC Central Committee. In 1950 he was transferred to work at Mao Zedong's side, and from then until 1966 he was responsible for looking after Mao Zedong's books. In recent years Pang Xianzhi has been the deputy director of the Party Literature Research Center in the Central Committee. Someone once asked him, "How do you view Mao Zedong's mistakes?" Pang Xianzhi replied: "No man is perfect. During the Yan'an Rectification Movement Mao Zedong made some mistakes, for which he later apologized to everybody. Before the Cultural Revolution Mao Zedong was on the whole correct on the fundamental issues and made only a few mistakes. But the Cultural Revolution was a fundamental mistake." Pang Xianzhi summarized Mao Zedong's temperament in four points: First, Mao cared about people. He cared very much about people at his side, and he once even rewrote a love letter for a bodyguard. Second, he had a rebellious temperament and could not tolerate oppression. He liked the description in *Water Margin* of the overthrow of an unjust society. Third, Mao was a man who pursued openness and justice. When alive he would not read *True Features of Officialdom* because he thought it was too "dark." He liked to read *Dream of the Red Chamber* because he thought that in it hope could be seen. Fourth, Mao had the temperament of a revolutionary, a strategist, and a poet. He was both realistic and romantic, and he had a wide range of emotions.

Looking for Source of Mao Zedong Fever

Mao Zedong's grandson Mao Xinyu [3029 2450 1342] is now studying history at the China People's University, called the "CCP's Second Party School." It was here that "Mao Zedong fever" first appeared among China's university students in recent years. It spread to all Beijing campuses and then to all higher schools in China. As a direct descendant of Mao Zedong's, Mao Xinyu is often confronted with "aggressive" questions. For example,

someone once asked him: When evaluating Mao Zedong's achievements and mistakes, some say there were 80 percent achievements and 20 percent mistakes; others say 70 percent achievements and 30 percent mistakes or 60 percent achievements and 40 percent mistakes. As a student of history who is also Mao Zedong's grandson, what do you think the evaluation should be? Mao Xinyu's answer was: "As Mao Zedong's grandson I think that grandfather worked all his life for his country and his people, and that 80 percent achievements and 20 percent mistakes would be fairly appropriate. But as a student of history I agree with the evaluation made by the great majority of the people, namely, 70 percent achievements and 30 percent mistakes."

"Revolutionary Songs" Sung in Guangzhou, Shenzhen

Even if people differ in their evaluation of Mao Zedong, the appearance of "Mao Zedong fever" is a real fact. Among the people on the mainland songs about Mao Zedong are again being sung, e.g., "On Gold Hill in Beijing," "I Love Beijing's Tiananmen," and "Always Rising, Never Setting Sun on the Grassland." The melodies of these songs of the radical Red times in the sixties and seventies have again become familiar to people. Most of the people who like to sing them are about 30 years old. In the song and dance halls of Guangzhou, Shenzhen, and the cities in the Zhujiang Delta, the audience is often seen singing "revolutionary songs." On the stage the singing star, although with a rock and roll beat, sets the whole hall to clapping, at times leading the audience to join in, in unison and harmony, and the warmth of the audience's reaction is astonishing. Last September in Guangzhou, singing stars of the mainland, Taiwan, and Hong Kong gave a song concert on the eve of the Asian Games. At the concert there was a revolutionary and romantic scene blending the singing of the songs "The Sun Is the Reddest, Chairman Mao Is the Dearest" and "Lover Under Starlight."

Tape, Picture Publishers Take Opportunity To Get Rich From Nostalgia

To ride the tide of "nostalgia," many tape and picture publishers on the mainland are competing with each other in issuing tapes and records. Everywhere in Guangzhou City people can buy the tapes "Glory of Mao Zedong," "Thinking of You, Mao Zedong," and "Mao Zedong's Poetry Recital." It is said that the tapes sell well.

Besides this surge of nostalgia there is a tendency to "raise the temperature" in deifying Mao Zedong.

Pictures of Mao Zedong Put on Buses, Cars; in Rural Areas People Even Set Up Incense Burners and Present Offerings to Him

On the streets of cities and towns in Guangdong Province, on the fronts of buses and private cars are affixed eye-catching pictures of Mao Zedong. People from elsewhere who see them for the first time are astonished. If

they ask the local people about them they get different answers. Some say that Mao Zedong's "forehead is full and his chin both square and round"—the visage of an emperor. Others say that Mao Zedong's prestige is still high and that during his time, although China's economy was not very developed, prices were stable and public order was fairly good. Some people think that Mao Zedong did many good things for the common people and that he should be respected. Some drivers frankly admit that the reason they put up Mao Zedong's picture is "to refute heresy." In fact, in the folk society of Guangdong and Hunan, the custom of hanging up Mao Zedong's picture for luck and peace is prevalent. In the rural areas some people even set up incense burners and make offerings to Mao Zedong's picture. On the mainland, in the nineties, just as in the sixties and seventies, the custom of putting up pictures of Mao Zedong and other top leaders has made a comeback in some families. In the minds of some people, Mao Zedong, who has been dead for 15 years, has become a god who ascended into heaven, just like many celestial beings in China's history who evolved from mortals.

The social phenomenon, source, and spreading influence of "Mao Zedong fever," which appeared when the Chinese mainland entered the nineties and the Eighth Five-Year Plan period, has not yet been thoroughly looked into and studied by experts. Is it just the expression of a certain nostalgia? Is it that, because of the changes in world affairs, people feel that it is hard to be parted from past ties? Is it because up to now it is hard to forget the image of Mao Zedong as the founder of the republic? Or is it because some people are dissatisfied with present-day society and are seeking consolation and a way to vent their feelings? Or is it a manifestation of perplexity about the course that the mainland's modernization has taken...?

No matter what is the case, if Mao Zedong is really a spirit in heaven, perhaps he is constantly amazed at the things that have happened after his death.

Application of Dialectical, Two-Way Thought Urged

HK2206064091 Beijing QIUSHI in Chinese No 10, 16 May 91 pp 45-47

[Article by Zhou Donghang (0719 2639 5300), of Dongtai City Government Office, Jiangsu: "Establish Idea of Dialectical, Two-Way Thought"]

[Text] "Two-way" is a term which has appeared quite frequently in newspapers and periodicals in recent years. It has been used, for example, to refer to the two-way exchange of experience, the two-way interflow of skilled personnel, the two-way choices in university student allocation, two-way alliances between enterprises, two-way regulation and control of market supply and demand, the two-way education between the educators and those being educated, and so on. "Two-way" has

become a common thought characteristic for many practices and experiences in many spheres. It is not difficult to see that the reason the two-way idea has been so widely propagated and accepted is not only that this formulation is a new one, but more importantly, it accords with dialectical thought, and more clearly and more specifically places in front of man the true features of the world. There is an idea that clearly putting forward the two-way thought mode was not coincidental, but rather is an advance, in accordance with the patterns, of man's cognitive modes achieved through the practice of reform and opening up.

Cognitive modes are determined by modes of practice, while modes of practice are in turn determined by the structures of the objective world and their patterns of movement. Two-way thought makes obvious the mutual links within the structures of things and is a characteristic which agrees with the practice of reform and opening up. In terms of the structures of objective things, the links between the two sides of a contradiction also exist as two-way things. They are mutually influencing, mutually restraining, and play mutual roles. That is to say, at the same time as each side of a contradiction has influence on, restrains, and plays a role on the other side, it is also inevitably subject to the influence, restraints, and roles exerted on it by the other side. For example, in physics, an action can produce a reaction; in chemistry decomposition exists at the same time as chemical combination; in philosophy, the determining role of matter also involves a reaction by consciousness; while in human society, the oppression of the ruling class can be produced concurrently with resistance by the ruled class. The role which one side has on the other and that which the second side has on the first emerge together and live and die together. Thus, people's thought modes should be two-way. Only in this way will it be possible to truly understand and master these two-way links between things and will we be able to think of better ways to link up the sides of the contradiction and promote the two-way roles of these two sides to accord with the process by which new things replace old. In social practice, when things are given rise to, people often pay attention to the role of only one of the directions, a one-way role. This is not the result of any need, but just bias on the cognitive level. That view which artificially splits apart the inevitable two-way links which are innate in things will affect and obstruct the development of things. For example, in the fostering and employment of talented persons, there exists a two-way flow. From the villages, every year there is an unending flow of new students to institutions of higher learning, while from the institutions of higher learning there is a flow of skilled personnel back to the villages. If the institutions of higher education do not send people to the villages or send only a few persons, it will result in two extraordinary phenomena—in the cities (especially in organs and scientific research institutes) scientific research strengths will lay idle, while in the villages (and especially the rural enterprises) there will be a lack of skilled scientific and technical personnel. This contradiction is extremely

serious at present, and this is a major restraining factor in the strategy of using science and technology to invigorate the villages. Practice has warned us that one-way thought, that is, the thought mode which one-sidedly stresses the role of one side of things and ignores the concurrently existing role of the other side, goes against the objective reality of two-way links between things and seriously obstructs the development of objective things. We should put efforts into striving to study and grasp the two-way thought mode to satisfy the needs of practice and promote the development of practice. Some areas have applied the two-way thought mode in economic work and achieved obvious results. For example, so that product quality is truly guaranteed for both buyers and sellers, the Hanchuan cable factory has established a follow-up record-keeping system for two-way product quality. Over the last few years, the reason that the economic development of a number of large counties in Jiangsu, Zhejiang, Shanghai, Shandong, and Guangdong, which are either grain or cotton producers or have high financial income, have been in the leading position in the country is ascribable, on the thought mode level, to open thought, that is two-way thought. We have already begun to use two-way thought to explore the new characteristics, new patterns, and new modes of ideological and political work in the new period. In order to properly combine the leaders' guidance and education of the masses with the masses' democratic supervision of the leaders, Huaiyang City in Jiangsu began in 1989 to propagate, in the various businesses and industries, "dual morality and educational standards." Not only were ideological and moral activity standards stipulated for the masses, but ideological and moral activity standards higher than the requirements for the masses were stipulated for leading cadres. This practice greatly promoted the building of spiritual civilization and various aspects of work in this city. Innumerable facts have shown that two-way thought is a thought mode which can accomplish much and is an effective utilization of materialist dialectics.

If we further analyze and look from the angle of the two sides of the contradiction and the position and role of their two-way links, these two-way links should be divided into the primary and the secondary, the important and the unimportant. This is because, as the various sides of the contradiction can be divided into the primary and the secondary, the two-way roles of the two sides of the contradiction will not be balanced. For example, force is primary and reactive force is secondary; the determinant role is primary and the reactive role is secondary. Also, if unit A goes to unit B to learn from it, although there will be mutual learning, we should see A's study of B as being primary; and so on. In this way, the primary and secondary positions of the two-way roles between things way rely for their existence on certain objective conditions. If we do some deeper analysis, we will discover that as soon as these objective conditions change, the primary and secondary positions of the two-way roles will also correspondingly undergo change. For example, in chemical reactions, changes in

external conditions such as concentrations, pressures, and temperatures can give rise to unequal changes in the speed of positive reaction and the speed of retroaction, resulting in a shift in the chemical equilibrium. If we speak in terms of commodity exchange, the fluctuations and changes in market supply and demand relations can also often lead to changes in the primary and secondary position of the two-way roles of the buyers and sellers. At times there is a "buyers' market" and at times there is a "sellers' market." The law of contradictions shows that when the primary and secondary positions of the two sides of a contradiction change in response to changes in conditions, the primary and secondary positions of the two-way roles of the two sides of the contradiction will also change correspondingly. From this we can see that the primary or secondary nature of the two-way roles between things exists universally and absolutely, while also being conditional and relative. This tells us that in grasping and using the two-way thought mode, we must use more dialectics and less metaphysics.

For quite some time, the widespread propagation of the two-way thought mode has been determined by the dialectics of reform and opening up. For example, the relationship between the planned economy and regulation through the market mechanism is an extremely important and profound question. For the 10-plus years of reform and opening up, we were engaged in repeated exploration and we made repeated efforts centered on this question. Under the precondition of strengthening macroeconomic planned regulation and control, the fostering of a market mechanism and the enlivening of commodity interflow became hot topics in economic life. However, in recent years, there has appeared the phenomenon of regional market blockades. Various regions and departments have established all sorts of obstacles to interfere in the production and operational autonomy of enterprises. It has even occurred, under the contract responsibility system, that rigid regulations have been set down whereby enterprises are only allowed to purchase and market local products or require local products to be rigidly arranged and matched. Some localities have also taken it upon themselves to set up checkpoints on roads, at stations, at ports, and at provincial or regional borders, thereby obstructing the normal flow of commodities. For products of other areas or for enterprises which deal in or use products from other areas, other localities have taken it upon themselves to increase tax rates, change tax rates, limit credit, raise credit interest rates, and change purchase/sale or wholesale/retail price differentials in order to forcibly increase the sales of the products of the locality. Reflecting that closed thought modes are still stubbornly entrenched in some people's minds, such regional market blockades have staged a comeback. These localities engage in selfish departmentalism and forget the laws of commodity circulation. They do not even understand that selling poor quality goods at high prices and that forcing local products which customers do not find

appealing onto circulation enterprises and onto consumers can only lead to the clogged circulation of commodities. They likewise do not understand that this will seriously affect the implementation of the economic improvement and rectification policies, the policies necessary for the sustained, stable, and coordinated development of the national economy. This is very stupid. The practices and ideas of those comrades who actively "oppose blockades" are something else. RENMIN RIBAO recently carried special reports on the opening up of the borders between the three provinces of Zhejiang, Fujian, and Jiangxi in order to find common prosperity. In response to the situation where there were various differentials in policies between the provinces, the neighboring counties (cities) of the three provinces, jointly stressed "policy follow-up" and "policy conformity" to guarantee the relative stability of the market. They jointly organized combines of goods and materials which transcended provinces and transcended counties (cities), and they put great effort into the development of border public relations. Opening the borders caused some problems and losses in some areas, but an undivided market was opened up, and the advantages outweighed the problems. This manifested their two-way, dialectical view of advantage and disadvantage. They not only looked at the losses which would result from opening the borders, but also looked at the advantages which would accrue to their area through the overall opening of the market. This shows that if we want to thoroughly break down the market blockades, it is insufficient just to study and become familiar with socialist economic laws. It is also necessary to overcome selfish departmentalism and also to overcome the biases of one-way thought, and to organically combine these two aspects.

The gradual establishment and perfection of a two-way service system for agriculture has provided new answers for profound problems in the reform of the agricultural system. The role of two-way thought is even more obvious here. It has placed the focal point of the work of improving agriculture and deepening reform of the rural structure on establishing a two-way service system for agriculture and freeing the great energy of the rural productive forces. This has been a significant breakthrough. Some basic-level rural cadres held to the old views and old methods which were so widespread before the dual-level operational system was implemented. They hold that "In one year, there are 12 months. For three months, we grasp the 'two items to be handed up,' for two months we grasp family planning, for one and a half months we engage in funeral reform, for over two months we have meetings, and for the remaining 60 days the weather is bad," and they maintain that they are kept busy handling these things. In other provinces the situation is different. In these areas, great changes have been seen in recent years because many counties (cities) have propagated to differing degrees the two-way contracted responsibility system in agriculture. Centered on all the tasks of agricultural production, specific task targets were set down at the city, county, township, village, and

household level, and two-way contracts were signed. The upper levels agreed in the contracts to provide the lower levels with all the necessary agricultural means of production as well as technical and funding services. The lower levels agreed through the contract with the upper levels to fulfill tasks in terms of area planted to various crops, output, and fixed purchase volumes, as well as to complete other economic targets. This two-way contract system is multilevel and overall. At every level there are two-way links between the upper and lower levels. This two-way system not only requires the peasants and the villages to do certain things, but also stipulates what services the village-level collective organizations and the various levels of government departments should provide. Not only are the production tasks and the contributions which the peasants should make "quantified," but the service responsibilities of the various levels of government department and economic organization are "fixed." Thus, the difficulty of work in these places has been greatly reduced, and the amount of work has also been reduced. Results have obviously improved, and the pace of agricultural development has been quite swift. The reality of work in our villages at present is that regardless of whether we speak of family contract responsibility or of an appropriate degree of operations of scale, all require overall socialized service for agriculture. Thus, the establishment and perfecting of the two-way contracted responsibility system and the two-way service system both require that stress be placed on service "from top to bottom." That is, the state and the collectives should provide good service to the peasants to stimulate their enthusiasm for making contributions to the collective and the state. In this way rural work will be changed from passive work to active work and the superiorities of the socialist system will be fully brought into play. For example, in order to get the peasants to safeguard and support family planning work, it is necessary to help them rid themselves of worries about "being old and without support." The insurance service system for the single-child parent which some areas have established is a good way to do this. By extension, in order to promote one of the roles in the two-way roles between things, it is possible to adopt direct methods to strengthen one role while adopting indirect methods to strengthen the other role, so as to achieve opposite yet complementary results. This is also where the significance of the dialectical law of two-way thought lies.

Materialist dialectics has always stressed the two-way roles between things. As Engels pointed out: "When we think deeply about the natural world, the history of mankind, or our own mental activities, the first thing which appears before us is a tableau of all sorts of links and mutual roles endlessly interwoven." (*Selected Works of Marx and Engels*, Vol 3, p 60) Two-way thought has long existed in man's practical and cognitive activities. However, the practice of reform and opening up is richer and more diverse than at any other time, and the links between thought and practice are much more intimate than in the past. This allows us to attain a deeper understanding of the universal links between things.

Such links objectively exist between the two sides of contradictions and they are divided into the primary and the secondary. The primary or secondary position of the links depends on the two-way roles of changes in certain conditions. We, in accordance with the practice of reform and opening up, must establish more consciously a dialectical two-way thought concept to promote the development of socialist construction.

First Private Publisher Described

91CM0480A Hong Kong CHING PAO [THE MIRROR] in Chinese No 6, 10 Jun 91 pp 48-49

[Article by Kuang Mu-lan (0562 1970 5695): "The Tian Ze Publishing House, Mainland China's Only Private Publisher, Feels the Pressure and Comes Near To Stopping Operations"]

[Excerpts] At a press conference on 2 April 1988, Du Daozheng [2629 1418 2973], director of the Press and Publication Administration, announced to Chinese and foreign reporters: Approval has been given to the establishment of China's first privately owned publishing house, the Tian Ze Publishing House, in Shaanxi. The matter has been followed with great interest internationally. How is this publishing house doing today?

Established by Well-Known Scholars With Funds Saved From Food and Clothing

The Tian Ze Publishing House was established by Dr. Zhou Yao [6650 1031], a very well-known entomologist, professor at Northwest Agricultural University, chief editor of an international academic publication (the *Entomological Classification Journal*), academician of the San Marino International Academy of Sciences, and member of the CPPCC [Chinese People's Political Consultative Conference] National Committee more than 120 professors, research fellows, agricultural technicians, and members of the Scientific Council of the Chinese Academy of Sciences who had pooled their resources for the establishment of the publishing house.

The original sponsors of the publishing house included such well-known figures as the late Chen Shixiang, director, and Huang Fusheng [7806 1788 3932], research fellow, of the Zoology Institute, Chinese Academy of Sciences; Zhou Mingzhen [6650 2494 6966], curator of the Beijing Museum of Natural History; Yang Jikun [2799 7162 2492], professor, Beijing Agricultural University; and Zhao Xiufu [6392 0208 1788], professor, Fujian Agricultural College. They were joined later by Professors Niu Man-chiang [3662 3341 3068] and Liang Tung-ting [2733 0681 1656], of the United States; Professor Cheng Feng-ying [6774 7685 3467], of Canada; and Tao Chia-chu [7118 1367 7467], research fellow from Taiwan.

In founding the Tian Ze Publishing House, these scientists are motivated by their strong dissatisfaction with the situation in the publishing field in mainland China, where pornographic, feudalistic, and superstitious books

and periodicals have flooded the market in recent years, but it is extremely difficult for scientific and technological books to get published. *They do not want to make money, but wish to "contribute to the four modernizations of the motherland, help improve the moral trend of society, serve scientific studies, and glorify scientists."*

To raise funds, some of these scientists have scrimped on food and clothing. Some have invested their life savings and take only interest on their shares (at the same rate as time deposits in banks) and no extra dividends. Zhou Yao has invested in the publishing house his life savings, what he earns by writing, and a part of his monthly pay as a professor, a total of more than 20,000 yuan. He takes no interest on his shares. He serves as the director and editor in chief without salary or allowance. In his will, he dictates that his shares and interests will not be inherited by his children and relatives, but will be used entirely for the development of the scientific publishing business. The spirit is extremely touching.

Unusually High Efficiency of Private Management Won Praises

Because the Tian Ze Publishing House is privately owned, its management system is naturally different from that of state-owned publishing houses. It has a first-rate professional editorial staff, consisting mainly of professors and research fellows, who are either retired or working part-time. The number of full-time editors and administrative personnel is very small. The problem of everyone eating out of the same big pot does not exist, and efficiency, therefore, is extremely high.

Because expenses are limited, publishing costs are very low. Other publishers would not publish any book with an impression of less than 10,000 or 8,000 copies because it would lose money. At Tian Ze, a printing of 3,000 copies is enough to cover costs. For books of high academic value, they are willing to take a loss and print as few as 1,000 or 2,000 copies.

At the time of its establishment, Tian Ze had already bought such editing and composing equipment as an electronic computer, a laser stamping machine, electric Chinese-foreign language typewriters, electric foreign language typewriters and so forth. This equipment has greatly enhanced the quality of its publications and shortened its publishing time.

In the two years from 7 June 1988 when it was formally established to the end of June 1990, the publishing house received not one cent from the state and borrowed no money from the banks, yet it published 238 books (including 18 still in the printing shop), all of which are good books and well received by academic circles at home and abroad.

Conscientiously Publishing Books on Science

[passage omitted] Of the books published, 194, or 82 percent, are on biological science, agricultural and forestry science, and related subjects. Besides, in its first

year, it turned out 36 books about the moral education of young people and about extracurricular guidance for middle and primary schools and 18 other books, including *Artistic Expression of Modern Architecture* and *Selected Paintings of Guo Lifa*, which account for 18 percent of the total number of titles published. It may have attempted to do too much as one publishing house, but it has not produced a bad book, not even one of poor taste.

In the past two years, the owners have been asked through friends or enticed with money to publish numerous so-called "best sellers," for example, *Palmistry*, *A Study of the Ma Yi Physiognomy*, *The Biological Clock of the Human Body*, *Man's Tricks*, *How To Become a Fascinating Woman*, *The Hei Te Report—a Study of the Female Sex Act*, and so on. The translator of the last book said that he could obtain a "special permit" from the Press and Publication Administration in Beijing and guaranteed them a profit of 300,000 yuan. The owners, acting on their conscience, sternly refused the offer.

Feeling the Heat, Cutting Operations

When the writer asked about their work in the past year, they said that operations have come near to a halt in the past year, and that they are still faced with some obstructions. However, they believed that with the on-going policy of reform and opening to the outside world today, the problems can be solved. In the past year, many overseas Chinese have visited the publishing house and indicated that they would donate or raise publication funds and make joint contributions to the prosperity of the motherland. Tian Ze Publishing House is certainly going to become increasingly more successful.

Veteran Writer Discusses Current Literary Tasks

91CM0500A Beijing WENYI BAO in Chinese
29 Jun 91 p 3

[Article by Qin Mu: "The Solemn Mandate of a Writer at an Historical Intersect"]

[Text] Over the last two years, guided by the Party's policy of rectifying literature on one hand and enriching it on the other, Chinese literature showed signs of prosperity after having experienced the most difficult period of time. It is, however, still far from meeting the needs of the time and people. Greater efforts should be made to create the conditions that are conducive to the arrival of prosperity that is socialist in nature and has specific implications.

Socialist literature is different from literature of any other time. It carries a solemn mandate and glorious task which is to create healthy spiritual products under the guidance of communist aesthetic ideology with a view to transforming and enriching the spiritual life of the people, purifying their morality and sentiment, and cherishing their confidence and courage to build a happy life.

To achieve such a lofty objective, practical and effective efforts must be made. A socialist writer must stand on a high plane and set strict demand on himself so as not to fail the expectation of the time and people.

A socialist writer should also closely follow the step of the time. Literary works are supposed to be the spiritual fire of an age, and even more so during the new historical period of socialism. The socialist path is a historical choice made by the Chinese people who have spent more than a 100 years in exploration and pursuit and paid dear prices time and again. It is the golden path on which the 1.1 billion people are marching under the leadership of the Chinese Communist Party. We must bravely and firmly walk along this road to the destination of communism. Reform and openness must be upheld with no waver in the least because they represent an irreversible historical trend and have proved to be the avenue towards a strong country. Literary works should reflect and keep up with such pulses of the time and transmit the message of the time to advance the cause of socialism.

At the same time, it should also be noted that we are now entering the last part of this century. We are right at the intersect of historical changes and facing a turbulent, unpredictable, and eventful world. The call and hope of a new century coexist with the desperation and lamentation of the end of the century. The progress and reaction of the historical process, the growth and setback of socialism, the distillation and degeneration of people's mind, the richness and impetuosity of social life, all have become so dazzling that they are pounding at the soul of everybody. Such distinguished features of the times need to be observed and grasped by the writers. With a self-centered mentality that ignores social events, it is impossible to produce any works that carry the flavor of a great era.

A socialist writer must be close to life. Life is the source of creative works, as has been demonstrated by practice. Real life in China is rich and colorful. People at different posts of socialist construction are creating vivid and magnificent scenes which provide unlimited source materials for literary creation. Our works should timely and truly reflect the lofty spiritual world of those new-life creators and their glorious achievements so as to enable the readers to appreciate the great steps that are being taken in the historical process of Chinese modernization construction.

To be close to life, writers will have to step out of their small study and enter the real world. They must identify with the masses, personally experience the vitality of the masses in socialist construction as well as their various psychological and spiritual phenomena under the new historical conditions. They should consciously develop themes, subject matters, plots, expressions, and poetic flavor from the rich life of the people. They should nurture themselves with the determined spirit of the masses who are the creators of history. They should purify their ideology, feeling, and view of the world in

the furnace of real life and come up with a brand-new and purified artistic feel. They should use a great sense of historical responsibility in the creation of works that are consistent with the logic of life to encourage people to love life and to dedicate themselves to the construction of a happy present and future.

A socialist writer should also be close to the people. People are the creators of history and the mother of writers. As Deng Xiaoping said, the artistic life of all progressive literary and art workers lie in their inseparable connection with the people. We must firmly keep this in mind and have the literary tree deeply rooted in the soil of the people's life.

Only when writers are close to the people can they understand the people and clearly recognize the special nature of people's spiritual world in a socialist society. In China, due to public ownership as the main relation of production, the relationship between the people is a brand-new, equal and friendly social relationship. It has been demonstrated and will be more fully shown that such spiritual world is more rational, more humane, and more conducive to the overall development of mankind than that of any other time and society. Only when writers are deeply involved in such a world can they appreciate its rich and extensive potential, consciously depict the selfless and dedicated spirit found in the new type of socialist personal relationships as well as the accompanying socialist human feelings, and create a brand-new aesthetic world in their works. We must pursue, explore and try to attain at an early time such lofty and ideal realm with all our efforts. But the only available approach towards that realm is to be close to the people, have mutual affinity with them, and consciously receive the nurturing of the people's artistic feelings. In return, it is a privilege and a glorious task for the socialist writers to create rich and colorful artistic works to meet the needs of the people's spiritual life and improve their artistic temperament.

We are at an historical intersect, a time of change and turbulence as well as a time of difficult pioneering and striving for progress. This age calls for a pioneering spirit and constantly generates such spirit. It needs many heroes and outstanding people and forever producing such people. Therefore, socialist writers have an enormous space for their literary creation and imagination.

Chinese revolutionary literature has closely followed the steps of the Party and gone through a long, glorious and difficult course. It will have a wonderful but grave future just like the Chinese socialist course. On the way to the remote future let all writers who are loyal to socialism go hand-in-hand and write works of historical significance.

Malpractice-Rectifying Group Visits Guangdong

HK0807073591 Guangzhou Guangdong People's Radio Network in Mandarin 0400 GMT 4 Jul 91

[Text] The State Council work group in charge of rectifying unhealthy professional tendencies reaffirmed

Guangdong's achievements in this respect. The work group made this assessment after listening to relevant reports and making investigations in Shenzhen, Foshan, and Zhuhai.

The work group held that Guangdong had made great and earnest efforts to build a clean and honest government and rectify unhealthy professional tendencies. Proceeding from actual conditions, Guangdong attached great importance to checking up on cadres who abused their power by building private houses, and it achieved marked success in ending the malpractice. Making fairly great achievements, Guangdong regarded the work of checking unreasonable charges, apportions, and fines as a breakthrough point and the principal content of the

war against unhealthy professional tendencies. In addition, Guangdong took effective measures in building a clean and honest government; in introducing a system whereby the public is kept aware of the government's decisionmaking process and operations and wherein government workers are subject to supervision by the masses; and in examining and prosecuting major and important cases, scoring remarkable successes.

The work group hoped that Guangdong would try to raise the cadres' vocational level and strengthen their contingent politically and organizationally while continuing to rectify unhealthy professional tendencies and to work out a set of effective and operational measures for checking unhealthy professional tendencies.

NATIONAL AFFAIRS, POLICY

Beijing Seminar on Share-holding System, Stock Market

91CE0652A Chongqing GAIGE [REFORM] in Chinese
No 3, 20 May 91 pp 5-8

[Summary of Seminar by Shen Hongsheng (3088 7703 3932) and Ji Zhaoquan (4764 0340 0356), secretaries of the seminar: "Improving the Share-holding System and the Experiment of Stock Market"]

[Text] In March 1991, the Comprehensive Development and Research Institute and GAIGE magazine jointly sponsored in Beijing a "seminar on improving the share-holding system and the experiment of stock market." Attending the seminar were over 100 people, including the representatives of stock and security companies in Shenzhen and Shanghai, experts and scholars from colleges and scientific and research units in Beijing, and from the departments concerned at the central level. At the seminar, stock and security companies in Shenzhen and Shanghai introduced their experience, and Hong Kong and Taiwan scholars and security companies were also invited to introduce their experience.

Leading comrades attending and speaking at the seminar were Ma Hong [7456 3163], director of the Development Research Center of the State Council; Gui Shiyong [2710 0013 6978], vice minister of the State Planning Commission; Liu Hongru [0491 7703 0320], vice minister of the State Restructuring of the Economic System Commission; and Tang Bingwu [3282 0014 0582], director of the State Administration of State Property.

Comrade Ma Hong pointed out that not long ago the Seventh Plenum of the 13th CPC Central Committee adopted a "proposal" which set forth a very important issue, that is to increase economic returns. Increasing economic returns is a very complicated task. One important aspect is the issue of fund management. He thinks that generally China's economic construction suffers from a shortage of funds on one hand, and on the other hand, the existing amount of property has reached a considerable scale. Since our property has a prominent tendency of "solidification," it cannot effectively flow from departments of lower efficiency to departments of higher efficiency, thus creating numerous problems for structural readjustment. Implementing the share-holding system may be a more effective measure, which has been proven by the development of the world economy. Of course, when dealing with new things like the share-holding system, we must not copy it automatically or rush headlong into mass action, although we should have a positive attitude. We need to analyze the similarities and differences between the share-holding systems in China and Western countries. In practice, we should draw on rational aspects and avoid harmful aspects.

Comrade Liu Hongru pointed out that through theoretical research and practical exploration, we should find a way to implement the share-holding system and establish

a stock market in a socialist country under the prerequisite of regarding state ownership as the basis. He analyzed: Judged from actual departments, implementing the share-holding system and developing stock market involve the two issues of capital and enterprise mechanism transformation. There is a shortage of funds for state construction and enterprise transformation and development. However since family and personal income levels are continually rising, there is the issue of how to transform savings into investment. In the past we relied only on the transformation of bank deposits. Now people suggest that we use other forms of working funds to achieve the transformation, especially the forms of stocks and bonds, which are of great significance. As for the issue of the transformation of enterprise mechanism, he said that the share-holding system can push enterprises into market competition and make them really independent in management and in assuming responsibility for their own profits and losses. Therefore, it is probably a better mechanism for enterprises.

After exchanges and discussions at the seminar, the participants reached the following common understandings:

1. What exactly does the share-holding system belong to, capitalism or socialism? The share-holding system has risen and fallen several times in the course of reform. This is mainly because some people regard it as capitalist stuff. After discussions, the participants held that the share-holding system is a form of organization for enterprise property. It divides property into shares of equal value and defines the nature and amount of property. Qualitative definition is to determine to whom the property belongs, and quantitative definition is to determine who has how much property. Therefore, this form and system of organization itself does not have the nature of class. It does not belong to capitalism or socialism. It is neutral, because it does not have any direct relation to the ownership of property. History shows that the share-holding system did not exist in the initial period of capitalist society, nor did the appearance of the share-holding system change the nature of the private ownership of capitalist society. By the same token, implementing the share-holding system in a socialist society will not change the nature of socialist public ownership either.

2. Do all forms of share-holding system need to issue stocks to the public? Some people think that to implement the share-holding system is to issue stocks to the public and to carry out stock exchange. After discussions, the participants agreed that it is a misunderstanding caused by the lack of knowledge in the share-holding system. To implement the share-holding system, enterprises may adopt two main forms: One is the limited-liability company. According to law, a certain number of share-holders jointly invest in an enterprise and stocks are issued to workers in the enterprise. The number of shares owned by each shareholder may vary, but the enterprise does not issue stocks to the public. The other is the limited-stock company. Namely according to

law, a fairly large number of shareholders jointly invest in an enterprise. Total investment is divided into shares of equal value and then issued to the public. Stocks may be issued in two forms: One is over the counter transactions, which involve selling stocks on the basis of their face value and does not involve the issue of price fluctuation. Another is listing on the stock market. Due to the supply and demand relations of stocks, or for other reasons, the actual sales price of stocks fluctuates. Stocks listed on the market need to be strictly screened. This is why only a limited number of companies can be listed, although there are many stock companies. Currently, if China wants to implement the share-holding system, it should concentrate on the limited-liability company. Even if it wants to implement the limited-stock company, only a few companies should be allowed to list their stocks on the market. Because of this, not all forms of the share-holding system need to issue stocks to the public, nor are all companies allowed to list their stocks on the market.

3. Will the implementation of the share-holding system "change public property into private property?" The participants held that enterprises implementing the share-holding system have strict definitions for property. The shares of state property are held by the state, collective property by collectives, and private property by private shareholders. Each has its own representatives to exercise its proprietary rights as share-holders. This not only will not turn public property into private property but will on the contrary effectively safeguard the ownership of public property due to the clear definition of property rights.

4. Will the existence of private shareholders under the share-holding system evolve into privatization? The participants held that whether or not to allow private shareholders would be determined by the initial period of socialism. Since China allows limited private ownership to exist and develop moderately in the ownership system and a small number of people to run small-scale private enterprises, it can, of course allow a small amount of private shareholding. The percentage of private shares may be determined by the constitution of stock companies. If the percentage is very small, there will not be any problem of privatization. For instance, Shanghai Municipality has 11 enterprises implementing the share-holding system that issues stocks. Of the 880 million yuan of stocks issued by these enterprises, 74 percent are held by the state, 19 percent are held by enterprises, and only 7 percent are held by private shareholders. Besides, private shareholding has two conditions: One is that enterprise workers hold the stocks in their own companies which do not issue stocks to the public; another is that individuals hold stocks in enterprises which do issue stocks to the public. Since workers participate in labor and hold shares, the former is a kind of cooperative economy which has the nature of public ownership, as long as there is a limit on the amount. It also helps workers pay attention to the increase and decrease of enterprise property. The latter has the nature

of private ownership because shares are held by individuals in society. However, if the percentage is very small, it would not affect the nature of public ownership as the basis of enterprises. Thus, implementing the share-holding system not only will not evolve into "privatization," but actually upholds the party's principle of "regarding public ownership as the basis and properly developing other economic elements."

5. Will the implementation of the share-holding system lead to the expansion of investment in capital construction? Some people think that implementing the share-holding system would expand the scale of capital construction, thus causing the investment of capital construction to expand. After discussions, the participants held that they are two different issues. The scale of capital construction belongs to the issue of macroeconomic control, and implementing the share-holding system is the issue of finding the sources of funds. After determining the scale of capital construction, implementing the share-holding system is one way to find the source of funds for capital construction. Because of this, it not only will not cause the expansion of investment but will actually insure the raising of part of the capital construction funds and reduce the burden of state finance.

6. Will the implementation of the share-holding system lead to the expansion of consumption funds? Some people think that implementing the share-holding system and selling stocks and distributing dividends to individuals would cause consumption funds to expand. After discussions, the participants held that stocks are different from bonds. Bonds need payments of interest and capital, but stocks need only payments of extra dividends, not capital. Therefore, issuing stocks can change a part of consumption funds into accumulation funds. Consumption funds would not expand; they would actually be suppressed.

7. Will the implementation of the share-holding system affect savings? Some people think that if we implement the share-holding system, the people would withdraw bank deposits to buy stocks, thus affecting savings. After discussions, the participants held that China now has over 700 billion yuan in savings deposits which cannot be all withdrawn to buy stocks. If a part of the saving is transferred to stocks, it is not a bad thing, but a good thing, as far as the stability of the national economy is concerned. Savings can be withdrawn anytime. Like a "tiger" kept in a cage, they can get out at anytime to shake the market. But stocks cannot be withdrawn; they can only be transferred. Because of this, turning part of savings into future productive stocks is like locking the "tiger" permanently in the cage; this could only benefit the stability of the economy.

8. Will the implementation of the share-holding system give rise to a rentier class? Some people think that implementing the share-holding system would generate a group of people who make a living by cutting interest coupons, thus creating a rentier class. After discussions,

the participants held that the question of whether or not to allow the existence and moderate development of private ownership belongs to the policy issue of the initial period of socialism. Our policy, in reform of the distribution system, is based clearly on distribution according each person's work, allowing for co-existence of multiple forms of distribution. In other words, a small amount of "nonlabor income" is allowed. Stock dividends and extra dividends are a type of nonlabor income, but drawing interest on bank deposits, treasury bonds, and municipal bonds is also considered nonlabor income. The nonlabor income of most people could not be the main source of income. If such income of a very few people is significant, it could be regulated with income regulatory tax. Because of this, it would not form an interest-eating class, but would actually reflect the party's principle of multiple forms of distribution based on to each according to his work.

9. How do we treat the fluctuation of stock prices? Some people think that in 1990 the stock prices of Shenzhen City fluctuated constantly and some people engaged in speculation, causing confusions and disturbances in the public. After discussions, the participants held that once stocks enter the market, they would become commodities and that the fluctuation of commodity prices is caused mainly by the supply and demand relationship. When the supply is limited and the demand is high, the price will inevitably rise. Otherwise, the price will fall. Therefore, the fluctuation of the stock market is inevitable. The problem is not price fluctuation. The problem is how we handle such fluctuation. In the second half of 1990, Shenzhen's stock market rose continuously. The main reason for this was that the number of stocks available on the market was too small and the gap between the supply and the demand was too great. The best solution at the time was to improve the control of the securities market while introducing new stocks. This could regulate the abnormal situation of the market and recover a large amount of stock funds for use in construction. Due to a lack of experience, we failed to do so, thus losing an excellent opportunity to raise money. The delay in introducing new stocks to the market caused shareholders to doubt whether the government would allow the existence of a stock market. As a result, another abnormal situation appeared—the stock market fell continuously. The key to solving this issue is to authorize pilot cities to increase the issue of stocks in a planned and timely manner.

10. Some people ask: Why do we need to implement the share-holding system if state-owned enterprises are carrying out the contract system? After discussions, the participants held that the contract system focuses on solving the issue of enterprises' management mechanism, having some restrictions, while the share-holding system can solve not only the problem of the enterprises management mechanism but also the problem of property operation mechanism. Practice has fully proven that there are great contrasts between general enterprises and enterprises implementing the share-holding system in

regard to efficiency, development, contributions to the state, and enterprise accumulation.

For instance, the Shenzhen Jintian Industrial, Ltd., used to be a state-run enterprise. After implementing the share-holding system in 1988, in the past three years, its annual industrial output value increased 16-fold and its annual profits increased 3-fold. In the two years after it implemented the share-holding system, the Shenzhen Wanke Enterprise, Ltd., increased the value of state property by 14-fold and paid a total of 5 million yuan of taxes in two years, which was equivalent to its profit level before the share-holding system.

In sum, the participants held that the share-holding system is an inevitable outcome of the development of the commodity economy and that to develop the commodity economy, some enterprises must implement the share-holding system. However to implement the share-holding system, China still lacks experience, and both internal and external conditions are insufficient. It is not appropriate to carry it out on a large scale at present, but it is extremely necessary to experiment with it in selected units. The guidelines of the Seventh Plenary Session of the 13th CPC Central Committee regarding the 10-year program and the Eighth Five-Year Plan point out: It is necessary to explore various effective forms for the implementation of the public economy. The limited-liability and limited stock companies which are based on public ownership are definitely an effective form of implementation. We should use this form and system of organization to accelerate the development of China's socialist commodity economy.

During the seminar, the participants conscientiously studied the guidelines of the Seventh Plenary Session of the 13th CPC Central Committee and made the following proposals on how to continue to experiment with the share-holding system in selected units:

1. We should properly expand the pilot projects of the share-holding system and focus on pushing the limited-liability company that issue stocks to internal shareholders, while increasing the number of limited-stock companies. Comrade Li Peng pointed out: "It is impossible for enterprise groups not to implement the share-holding system." Representatives at the seminar unanimously agreed that this inference is very correct and hoped that some enterprise groups can take the lead in experimenting with the system.

2. Workers' shareholding is of the nature of the cooperative economy, which is conducive to arousing workers' sense of responsibility for being the master. It may be implemented in limited-liability companies and stock companies. We should not put too many restricts on this.

3. With regard to the pilot projects of issuing stocks to the public, we should exercise decentralized control. The central government may control the total issue of stocks and assign the breakdown of the total amount to different cities carrying out the pilot projects of reform. As for which enterprises should carry out the experiments of

reform and which enterprises issue how much stock, reform cities may decide according to their own conditions. There is no need for each and every enterprise to report to the central government for examination and approval.

4. Except for Shanghai and Shenzhen, all cities have conducted experiments in the past. Some have issued stocks but still lack a complete stock market. The participants suggested that we should allow enterprises which have already issued stocks to list their stocks with Shanghai's and Shenzhen's stock markets to carry out transactions.

5. We should formulate as soon as possible pertinent laws. The guidelines proposed by the Seventh Plenary Session of the 13th CPC Central Committee already pointed out the need to formulate the "law of corporation," suggesting that the law of corporation include the contents of two aspects: the limited-liability company and the corporation. It is inappropriate to formulate only the law covering the former. Before the state law is introduced, we should allow different provinces and municipalities to formulate first some temporary rules and regulations according to their own conditions to meet urgent needs.

6. We should carry out as soon as possible the experiment of allowing foreigners to buy stocks in China and Chinese enterprises to issue stocks outside China.

7. To effectively control the stocks entering the market, we suggest that we establish a "national security control commission" on the basis of common international experience, formulate a unified policy, and exercise control and supervision over the stock market. This organ should belong and answer directly to the State Council.

Economic Policies Encourage Regional Blockades

91CE0682A Kunming ZHONGGUO JINGJI WENTI
[CHINA'S ECONOMIC PROBLEMS] in Chinese No 3,
20 May 91 pp 20-25

[Article by Xu Hua (1776 5478): "Effects of Economic Policies on Regional Blockades"]

[Text] Some current policies have encouraged and worsened interregional market blockades, according to the writer. If economic policies are improved and eliminate their tendency to cause regional blockades, then possibly regional blockades will be substantially reduced. We propose that existing economic policies be systematically adjusted and amplified.

1. Raising the Issue

When we examine and analyze interregional blockades, we must not confine ourselves to the usual causes and danger. This is because behind the phenomenon is an array of factors, some institutional, some policy-related, which work in different ways. The real world being what

it is, we cannot realistically imagine eliminating these conditions completely in one fell swoop. Hence it is imperative that we examine the effects of each set of factors on interregional blockades and look for a way to change some of the conditions and break down the blockades. Using the institutional factors existing in the finance contracting system, this article analyzes the effects of policy factors on regional blockades and explores the possibility of eliminating such blockades through policy adjustments.

By making institutional factors, whose core is the local finance contracting system, the underlying assumption of our analysis, we affirm the status of the local government as the principal player with its own interests. This can be justified as follows. First, the per capita national income of China is quite low and 800 million Chinese still live in the countryside. The delegation of authority by the state to the enterprise in itself will not liberate this vast population from the well-established practices of the natural economy and catapult it into the orbit of a commodity economy. The fact of the matter is that local governments at all levels are an indispensable vital force. Without their effort, the march toward a commodity economy will take that much longer. The central government, therefore, must rely on local governments at all levels to launch and organize local economic development, at the same time giving them the corresponding power and authority. Second, given the lack of an existing model, economic structural reform in China is highly exploratory. To make reform less risky and maintain a stable reform order, we need a major player that is even more direct than the central government to actually carry out reform. After they were delegated authority and allowed to keep their profits, enterprises have conducted themselves irresponsibly in many ways. They are in a better position to supervise enterprises and intervene in a more timely and effective manner. In addition, they assume many economic responsibilities of a local nature, such as stabilizing the social and economic order, providing jobs, raising funds to finance urban construction and housing, and undertake food basket projects. In short, the responsibilities of local governments are arduous. Unless they are armed with corresponding powers and resources, local governments will not be able to carry out their functions properly. Third, the central government has decided that the finance contracting system will remain unchanged in the Eighth Five-Year Plan. This determines that our starting point when we discuss the problem of regional blockades is not whether we should recognize the locality as a principle interest party. Instead we must assume that it is and proceed from there to search for a practical solution. Fourth, institutional factors last longer than policy factors and it is more difficult and costly to reform them. Since the institutional factors behind regional blockades will not change in the foreseeable future, we should look long and hard at the possibility of achieving our projected goals by adjusting policy-related factors.

2. Effects of Individual Policies on Regional Blockades

Generally speaking, any economic policy that directly or indirectly impacts the interregional balance of interests and the realization of local economic interests gives rise to regional blockades to some extent. Depending on their level of operation, economic policies can be divided into macroeconomic policies, such as fiscal policies and monetary policies; microeconomic policies, such as the industrial policy, wage policy, price policy, and employment policy; and regional policies, such as the investment policy and foreign exchange retention policy. Since a regional policy itself embodies the principle of differential treatment, it directly determines and regulates the distribution of interests among the various regions through various paths. The reason is that under a given set of institutions, regions differ in their response to and ability to cope with macroeconomic and microeconomic policies. In terms of the formulation and implementation of economic policies, in China both macroeconomic and regional economic policies are formulated and enforced by the central government. Some microeconomic policies, on the other hand, are formulated by the central government and implemented by local governments. Other microeconomic policies are formulated and implemented by local governments as authorized by the central authorities and in light of local conditions and needs. There is yet another type of policy—"local policy"—which is formulated and implemented by a local government to protect its own interests. Because of its protectionist nature, this kind of policy often is an important tool for enforcing a regional blockade. Clearly, our discussion here does not include this kind of local protectionist policy. Below is an analysis of the effects of various economic policies.

A) Effects of investment policies

The effects of investment policies first and foremost come from the principle of differential treatment. For 30 years before the introduction of reform and open policy, China followed a policy of balanced regional development policy, giving priority to the large-scale westward movement of productive forces. Several major rounds of investment dispersal succeeded in putting an end to the unjustifiable concentration of industry along the eastern coast characteristic of the early years of the PRC, but only at the expense of economic efficiency. Not only was the west not lifted from poverty and backwardness, but the development of the eastern coast has also been directly hurt. Since reform and the open policy got under way, the state has shifted the focus of economic construction onto the improvement of economic performance. The regional development strategy has begun to exhibit the characteristics of imbalance. The investment policy notably favored the coast. In recent years fixed assets investment by units owned by the whole people in the interior declined sharply relative to investment nationwide, while investment by the nine coastal provinces rose appreciably. Even as it successfully tapped enormous economic potential, the regional bias of the investment policy has also created problems for provinces in

the interior, particularly those provinces rich in resources that had traditionally relied on funds from the state. They must create jobs, adjust the production structure, and develop their abundant natural resources, yet they are woefully short of funds and technology. All this forces provincial governments to pay closer attention to the source of local revenues and stress the protection of local enterprises.

Another regional effect of the investment policy is the convergence of regional industrial structures caused by the delegation of investment management authority and the lack of economies of scale among enterprises. Since 1984, the central government has delegated the authority to plan and manage fixed assets investment. Given an unsound price system, the delegation of investment management authority in effect amounts to the central government abandoning any attempt to implement an industrial policy on a national scale so as to further rationalize the distribution of productive forces and the industrial structure. Succumbing to the temptation of an irrational price system, local governments have scrambled to develop a number of profitable processing industries, particularly those that turn out upscale durable consumer goods and office supplies. The result is that the industrial structure is becoming increasingly similar from region to region. At the same time, because financial resources are limited and funds are scattered, the development of processing projects that require limited investment, pay off quickly, and turn out high-priced and profitable products has become a major way to broaden revenue sources for local governments. As a result, the scale of investment projects trails that of economies of scale and duplication of imports is extensive. The convergence of structure between regions has led to excessive competition within an industry, while the miniaturization of projects has prevented enterprises from improving their efficiency through competition and actually made them less able to compete. When there is a downturn in the economy and the market softens, the interests of one region clash sharply with those of others. Against this backdrop local protectionist policies were born.

These two regional effects of the investment policy differ in that one is direct, the other indirect. The regional bias of investment has directly altered the regional distribution of interests, while the delegation of investment management authority sowed the seeds for future conflict between regions on the market. The latter effect is felt indirectly and more slowly.

B) Effects of the foreign exchange retention policy

The state has taken a string of measures in recent years to encourage exports and the earning of foreign exchange. Of all these measures, the impact of the foreign exchange retention policy differs the most from region to region. The five special economic zones are allowed to keep 100 percent of the foreign exchange they earn on their exports. In Fujian and Guangdong, it is 30 percent; areas

inhabited by minority nationalities, 50 percent, and other provinces and regions, 25 percent.

It is the regional bias of the foreign exchange retention policy that has directly caused localities to scramble for goods and supplies and put up regional blockades. Foreign trade enterprises in areas with a high rate of foreign exchange retention use their advantageous position to raise the procurement prices of exports artificially. To the interior province receiving no preferential treatment, such conduct squeezes out the normal business of local foreign trade companies, on the one hand, and raises production costs for local processing enterprises using the same sources of goods and raw materials, on the other. Their interests being hurt directly, resource-producing areas have no choice but to impose an administrative blockade.

The disparate regional impact of the foreign exchange retention policy also widens the income gaps among regions. Regions that enjoy a higher foreign exchange retention ratio are in a position to import on their own a variety of commodities of which there is a shortage, using the plentiful foreign exchange funds they have on hand, and earn large sums of money. This effectively widens regional income gaps further. The artificial widening of these gaps provides an emotional argument for the establishment of market barriers and makes the government feel justified in doing so.

C) Effects of the price policy

The effects of the price policy on the distribution of interests among regions are multifaceted.

First of all, the decontrol of prices and the introduction of a variety of price systems have redistributed interests among regions. After several rounds of reform, the prices of a majority of agricultural products and light industrial products were deregulated, while the prices of grain and cooking oil under contract and the procurement prices of several major agricultural products that impact the national economy and the people's livelihood including cotton, flue-cured tobacco, and sugar are still set by the state. As for capital goods, a dual-track pricing system has been adopted: within the plan prices are set by the state, outside the plan prices are negotiated. At a time when the overall price level keeps going up, the price policy mentioned above basically perpetuates the traditional unsound price structure in which energy, raw materials, and other primary products are underpriced and processed products are overpriced. Through the exchange between cheap raw materials and high-priced processed products, the value of commodities continues to move from the west to the east. Although the central government has been compensating raw material-exporting areas in the west with financial subsidies, such compensation is not based on the transfer of value and injects no life into the economy of the west. Misguided by this price policy and to work themselves out of this unfavorable position, regions in the west use their power to review and approve investment projects to develop processing industries using local raw materials so as to

increase the value of their products. The upshot is an increasingly similar industrial structure from one region to the next.

Second, to make price reform less risky and ease the burden on the national coffers, the government has opted to lift price controls on some agricultural products and basic consumer goods and raise prices gradually region by region. When prices are deregulated or raised, the local government concerned must issue financial subsidies to local residents. For this reason, price deregulation and price increases can only first take place in those areas which are economically strong and financially sound. For any area, the advantage of being the first to lift price control or raise prices is that it can attract goods from other areas, thereby improving local residents' actual well-being and blunting the local trend toward rising wages and other costs by using cheap resources from outside, which is an indirect financial gain for the local government in question. For areas where prices have not been deregulated or raised, no doubt there will be a shortage of local commodities. Given a lack of financial resources to carry out price reform, the governments of these areas have no choice but to resort to administrative blockade by setting up barriers everywhere to prevent an outflow of commodities.

Third, the system of level-by-level price management has given local governments at all levels a certain amount of power to set prices and manage prices. This has tremendous significance for helping prices regulate market supply and demand flexibly. However, the drawback of the deregulation of price management authority is that it also makes it legal for local governments to compete on price to further local interests. When the market is booming, the localities jack up the prices of their leading products as well as the prices of raw materials for use in profitable processing industries in a desperate bid to increase profits. When the market loses steam, they scramble to raise the sale prices of products from outside to increase the market share of local products by manipulating the regional price differentials. When the line between the misuse of the price mechanism and proper price management is blurred, normal interregional commodity circulation is destroyed.

D) Effects of the monetary policy

The monetary policy is a means available to the central government to regulate the money supply and the total scale of credit. Misused, the monetary policy will have serious repercussions for a local economy and the balance of regional interests. In China a sustained expansionary monetary policy is often the product of an economic development strategy that seeks excessively rapid growth. Spurred on by just such a policy, local governments scrambled to outpace one another in economic growth between 1985-1988. Launching investment projects and expanding production unrealistically with no regard for national strength and divorced from local reality and market demand. In so doing they laid

the material foundation for the over-production that came subsequently. To ensure the availability of raw materials and supplementary materials essential to rapid development, the local government is bound to do everything to retain goods that would otherwise be shipped out of the area. A sustained restrictive monetary policy is usually adopted by the government as an adjustment to an overheated economy where the proportions have gone seriously out of balance. Since the fourth quarter of 1988, when China tightened the money supply and began to improve the economic climate and rectify the economic order, the momentum of runaway growth has been checked and the market softened after years of explosive demand. Enterprises experienced serious cash flow and production difficulties, widely damaging the economic interests of all regions. To extricate its local enterprises from their plight as well as to ease its own financial impasse, one region after another has taken various steps to prohibit or restrict the inflow of finished products from other places to help move local markets. A special feature of the impact of the monetary policy is its extensiveness. While other policies impact only a handful of products and areas, the monetary policy affects practically all areas in a more or less similar fashion. The number of products kept out of various local markets is well over 100. As it directly determines the volume of commodities in circulation, the monetary policy plays a leading role among the various policies. The local blockades resulting from a confused monetary policy in turn derail other economic policies and other means of economic leverage, causing tremendous damage.

3. The Comprehensive Effects of Economic Policies on Regional Blockades

By studying the impact of China's economic policies on local economic behavior comprehensively, we can steer clear of the one-sidedness that often goes with analyzing the effects of a single policy and will be better able to evaluate the whole body of economic legislation systematically and put forward suggestions for improvement. In our opinion, the whole body of economic legislation in effect in recent years has had the following four kinds of effects on regional blockades:

A) They have accumulatively stimulated the tendency to advance and protect local interests.

Given the finance contracting system and the practice of evaluating local leading cadres by the economic development of the area and its financial status, local governments have effectively emerged as relatively independent leading entities with their own economic interests. Naturally it has become the responsibility and mission of a local government to advance and protect local interests. If our various economic policies constitute a coherent system that creates a favorable macroeconomic environment, eliminating the possibility of furthering local interests at the expense of those of other areas and establishing a balance of interests between the regions that promotes fair competition, then the various local

governments must organize and coordinate all resources within their jurisdictions through their own efforts to improve economic performance and enhance local economic interests. However, not only do existing policies fail to produce the above-mentioned effects; on the contrary, they further induce and encourage local governments to deviate from the regular channels to advance and protect local interests. On the one hand, the current body of economic legislation has no mechanisms to restrain the interest-seeking behavior of local governments. The shortcomings of and lack of coordination between the existing policies give some localities an opportunity to openly lay their hands on the resources of other areas to beef up their own economic muscle. On the other hand, most of the existing economic policies are characterized by a regional bias. According to the policy-by-policy analysis above, all policies, whether it is the investment policy, foreign exchange retention policy, or price, directly or indirectly redistribute economic interests among the regions to the benefit of some and at the expense of others. In the process, the former are spurred to make the most of the policies and gradually convert the transferred interests into vested interests, while the latter are forced to take administrative measures to protect local economic interests. The effects of our economic policies reinforce the interest-centeredness of local governments and distract them from carrying out their regular duties and functions. This is a leading cause of regional blockades.

B) The matai effects of the interregional distribution of interests

The existing collection of economic policies is seldom complementary when it comes to the distribution of interests among regions. The result is a striking matai effect that artificially widens the disparity in levels of economic development between regions. This can take either one of two forms. In the first scenario, the economic policy alternates with the market in transferring interests. One example is the foreign exchange retention policy. The region that enjoys a preferential policy can retain a higher percentage of every sum of foreign exchange that it earns. Whether it uses the money to regulate foreign exchange or import commodities in short supply, it stands to earn a larger sum of renminbi, which only enhances its capability to procure commodities for export. This, in turn, enables it to augment the amount of foreign exchange it retains and its renminbi earnings time after time. In the second scenario, the leading policy works in tandem with the successor policy to redistribute accumulated interests. After prices were deregulated by group and a variety of price types were introduced, for instance, state investment began to favor the eastern coast. As a result, areas in the east not only obtain the transferred value derived from the exchange between manufactured goods and primary products, but also receive a rising flow of fund inputs. In contrast, these policies make a bad situation worse for other areas, particularly raw material producing areas, which are confronted with multiple unfavorable circumstances.

The matai effect of economic policies intensifies the conflict of interests among regions and makes it imperative for undeveloped areas to resort to protectionism.

The policies of financial subsidy and poverty relief do not appreciably offset the matai effect in the interregional distribution of interests. This is because the state too has serious budgetary difficulties. Financial subsidies and poverty relief grants often are no more than a drop in the bucket.

C) Effects of the short-sighted objectives and behavior of local governments

In the long haul, promoting a free flow of commodities among regions is enormously positive to the formation of a sound international division of labor and making the most of every area's strengths. It is also consistent with the fundamental interests of raising the level of economic development in all areas and improving the people's living standards. However, the current economic policy forces local governments to act short-sightedly, not far-sightedly. First of all, the performance evaluation system for local leading cadres has intensified their sense of responsibility and put them under greater pressure. At the same time it has also bred utilitarianism. We evaluate a cadre by the economic growth rate of the locality and its financial situation but often overlook his contributions to laying the groundwork for long-term development because they are invisible. Second, an excessive burden is another factor that makes local governments behave myopically. Faced with all sorts of demands on their revenues, such as stabilizing the market, placing people in jobs, building housing, and solving the food problems of urban residents, the local governments are stretched to the limit financially and are hardly in a position to adhere to long-term development goals. Third, the hastiness with which national policies have been introduced and their inconsistency have proved more than the local governments can handle. Lacking a stable environment for local economic development, all the areas believe that what matters most is to reap short-term profits. With economic policies thus contributing to myopic behavior, local governments have no choice but to concentrate on the short-term gains of their localities, which makes them ever more mindful of whether or not they will come out ahead following changes in the distribution of interests among the localities and between the central government and the localities.

D) Administrative blockades by local governments undermine the effectiveness of law

It is not that the central government has no checks at all on the behavior of local governments. It is just that the checks seldom manage to balance economic interests but more often consist of ill-timed administrative orders. When the economic climate is favorable and there is a semblance of balance in the economic interests of the various areas, most local governments manage to show a

measure of self-restraint and submit themselves to regulation and control by the central government. But when the economic climate deteriorates and economic interests between the regions become lopsided, economic policies are critical as a check on the economic behavior of local governments. This is because administrative fiat cannot improve the situation under these circumstances. If economic policies are properly applied, with the result that the economic climate gradually improves, local governments will not have to fall back on protectionism. If, on the other hand, economic policies are misguided, local governments likely will "run the red light collectively" despite repeated injunctions and put up all sorts of trade barriers, overt and covert. Misguided economic policies can take one of two forms. One, they may be too rash or drastic, leaving no room for adjustments. Such policies are more than the local governments can cope with. For instance, although the retrenchment policy of the past two years is absolutely indispensable to curbing virulent inflation, the fact that the brakes were hit too hard has pushed the economy into a decline with enterprises everywhere caught in a production slump. Two, the restraining effects of some policies may impact too broad an area. This is particularly true in the case of macroeconomic policies, which usually affect the economic interests at every level. When a tight monetary policy jeopardizes the production and cash flow of enterprises everywhere, it takes only one area to adopt protectionist measures before everybody else follows suit. Faced with this situation, the central government can only respond with a "just this once." When economic policies are "ineffective in controlling the masses," the authority of the central government in regulating and managing the economy is undermined. This is an important reason why regional blockades have survived repeated orders to outlaw them.

4. Improving Existing Economic Policies

The above analysis of effects gives us reason to believe that some of the existing economic policies have played a role in causing and encouraging the emergence of regional blockades. If economic policies are improved to eliminate the negative effects that cause regional blockades, the possibility that such blockades may occur will largely be removed even with finance contracting. We propose that existing economic policies be systematically adjusted and amplified specifically in the following direction:

A) Making existing policies more balanced. This means we must change their accumulative common tendency and make them more comprehensive and more effective in restraining the behavior of local governments. The following steps, among others, should be taken: 1) Coordinate existing fiscal, monetary, tax, price, wage, investment, and foreign trade policies across the board, removing provisions that contradict one another. 2) Standardize the limits of local economic management authority so that policies made by local governments are consistent with national principles. Regarding the prices

of various categories of commodities that local governments have been authorized to handle, for instance, a price differential ratio must be set at different levels to prevent local authorities from misusing the price factor to gain a competitive edge. Another example, local governments have been given the power to review and approve some types of investment projects. In reviewing these projects, however, they must evaluate their feasibility in accordance with uniform shadow prices set by the central government. This can prevent the overproduction of commodities that occurs when all localities jump on the bandwagon of a product where price irrationality gives rise to "bogus" profits. 3) Set up a system to enable consumers and enterprises to report the existence of regional blockades. Encourage consumers and enterprises to take part in supervision. Where the presence of a regional blockade has been verified, the reporter should be rewarded. Disciplinary measures should be taken against the leader of a locality where a blockade exists and economic sanctions should be imposed on the area in question.

B) Make existing policies more compensatory. This means making the body of economic policies better able to distribute economic interests among the regions in a dual direction, accommodating the interests of underdeveloped and developed areas. Beginning this year, the policy of varying the foreign exchange retention ratio by region has been replaced by uniform ratios for the various major categories of commodities. That aside, there are other measures that can make policies more compensatory: 1) At a time when a major overhaul of the price system still lies in the future and when old price ratios between raw materials and processed products are still in place, central government investment should favor raw-material bases in the west as appropriate so that the profits from market distribution guided by distorted prices and those from financial redistribution cancel each other out, thus putting an end to the disadvantage at which raw material-producing provinces now find themselves. 2) Draw up a practical and feasible policy to spur coastal enterprises to invest in the interior and encourage the free interregional movement of funds, technology, manpower, and other elements of production.

C) Make existing policies more forward-looking. A body of economic legislation that is forward-looking refers to its ability to steer local leading cadres to focus their energies on the long-term objectives of economic development. Toward that end, we must: 1) Improve the appointment system and evaluation system for local leading cadres. The evaluation system should concentrate on the improvement of local economic performance, not the economic growth rate or the financial situation; 2) Make policies more scientific and consistent. Before a policy is introduced, there must be a full scientific study. In particular, the regional economic impact of the policy in question must be analyzed in earnest. The scientific nature of a policy is a prerequisite for its stability. And only policy stability will prevent

local governments from deviating from long-term objectives in pursuit of short-term profits.

D) Moderation. This means that whether it is intended to stimulate economic growth or to restrain it, an economic policy must not go to extremes. Even a policy that favors a certain region must not affect or damage the interests of other areas excessively. Of the entire range of economic policies, it is particularly important that the monetary policy be properly moderate. Toward that end, we must work hard to achieve the following: 1) Establish a guiding philosophy that revolves around the improvement of economic performance and emphasizes moderate economic growth. Remove the pressure that the catch-up-with-and-overtake type of economic development strategy exerts on the monetary policy. 2) Determine the size of the growth of the money supply according to the economic growth rate and the extent to which the economy is monetarized. 3) Create conditions for the central bank to operate on the open market. Micro-regulate the money supply.

Provinces, Cities Try To Improve Large, Medium-Sized Enterprises

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[Seven articles by Huan Xin (3883 0207) et al: "Creating the Conditions for Enlivening Large- and Medium-Sized Enterprises To Extricate the National Economy From Its Dire Straits—Provinces and Cities Draw Up Measures To Improve Their Large- and Medium-Sized Enterprises"; the first paragraph in italics is a source-supplied editorial note.]

[Text] **Editorial Note:** *In the last two years, enterprises, especially the large- and medium-sized people-owned enterprises, have been plagued by many problems. This is because enterprises lack the necessary power to make management decisions and the necessary funds to engage in expanded reproduction or even sustain simple reproduction. These are the main reasons for our failure to enliven enterprises. The tendency to kill the goose that lays the golden eggs, the desire for quick profit and immediate success, the attempts to retrieve power and control more money have only hastened enterprises' demise and ruined the economy. This certainly is not the objective of rectification and improvement. It is because we have finally come to realize our mistakes that this year, acting in the spirit of the Seventh Plenary Session of the 13th Party Central Committee and of the National Conference on Restructuring the Economy System, the localities have been busy drawing up policies and measures to enliven the large- and medium-sized enterprises, to devolve power and yield profit to the lower levels, and to provide the basic conditions for enlivening enterprises. These are necessary steps. Yet, years of reform experience proved that it is simply not enough to just reduce taxes and yield profit. To really enliven enterprises, we must work hard on improving the enterprise management mechanisms. We must increase enterprise vitality, but we*

also must also boost our ability to restrain them. This should be the direction of thorough enterprise reform. Only in this way can we finally get out of the vicious cycle where "decontrol means chaos, and chaos leads to control, and control leads to rigidity, and rigidity prompts decontrol," a cycle which has plagued our economy for decades. Only in this way can we lay the solid microeconomic foundation for the planned commodity economy and successfully change the old system into a new socialist commodity economy and eventually put the national economy on a benign cycle.

Tianjin: Change the Enterprise Mechanisms To Enliven Some Large- and Medium-Sized Enterprises—by Huan Xin

Relevant departments in Tianjin are prepared to select some of the municipality's large- and medium-sized enterprises which produce high quality products, which have good market potentials, and which have solid management skills to pilot its program. On the premise that it will keep the state's assets intact and even add value to them and that it will fulfill the mandatory plans handed down by the state, Tianjin will further change the enterprise mechanisms. Specifically:

1. With regard to the formation of administrative leading group, Tianjin will comply with the "Enterprise Law" and let the factory director nominate his deputy director, the chief engineer, the chief economist, and the mid-level administrative cadres, and if approved, the nominees will be confirmed. As an alternative, candidates may be nominated on a competitive basis and confirmed by the enterprise party and government leaders. In other words, the factory director will have the power to nominate people to the leading group, but the party committee and the senior departments in charge will have veto power.
2. Enterprises will be allowed to set up their own organizational structure and hire their own workers. So long as the tasks handed down by the higher authorities are completed, no department may interfere nor make that the basis of assorted criticisms.
3. With respect to the labor employment system, enterprises will be allowed to sign contracts with their permanent staff. Enterprises will be allowed to implement their own lay-off and retirement systems. The factory director has the right to discharge workers, the right to reject unnecessary workers assigned by his superiors, and the right to decide whether to rehire workers who have been reformed through labor.
4. With respect to allocation, further steps will be taken to smash the "big pot." Enterprises will be allowed to implement an enterprise wage system by keeping the original wages on file for reference. Enterprises whose labor productivity rate, profit to profit tax ratio, wage to profit tax ratio, and per capita profit tax rate can match that of the joint ventures in the same line of business or have reached the average level of enterprises in Tianjin Municipality's development zone in 1990 will be

allowed to follow the basic wage standards of the joint ventures, and depending on the type of enterprise, their wage level will be 20-50 percent higher than the average wage of the municipality's budgeted industrial enterprises. Enterprises will be allowed to promote workers based on the tests they passed. At the same time, they may implement a supplementary insurance system, and only personal income regulation taxes may be levied on the workers' wage income.

5. Upon delivering their profits to the higher authorities, enterprises may spend more on technological exploration, activities to promote sales, advertisement and publicity, depreciation, and major renovation than currently allowed, and may follow the example of the joint ventures and township enterprises. Depending on what the individual enterprise needs for production and operation, each may take out a fixed percentage of its income from sales as tax on the possession of funds to supplement its circulation fund.

6. To control local power to set product prices, on the premise that the tasks handed down by the higher authorities will be completed, enterprises will be free to determine the seasonal price differential and regional price differential where necessary, and they will be allowed to dispose of the goods they have overstocked in the market as they see fit.

7. Enterprises will be allowed to choose their own suppliers for the raw and processed materials, and spare parts they need in the course of production.

8. For products that do not require export subsidy, while making sure that enterprises and localities are retaining their share of the foreign exchange income as stipulated by the state, enterprises will have the right to choose the port from which to export their goods and choose their own affiliated sales agencies. They have the right to obtain and utilize their legal share of retained foreign exchange. The higher level departments in charge will no longer centralize enterprises' retained foreign exchange income.

Harbin: Formulate Policies and Measures To Enliven Large- and Medium-Sized Enterprises—Cao Jiang [2580 3068]

Harbin's city government has formulated new policies and measures to further enliven the large- and medium-sized enterprises. The important measures are: (1) The city will maintain the continuity and stability of the policy to enliven enterprises. It will continue to implement the provincial government's "Article 50" and the six documents and the detail rules and regulations prepared by the city government to promote sales and increase production as well as other policies that aim to enliven enterprises. The relevant departments should carefully sort out the documents they have handed down. All measures that are not in keeping with the spirit of enlivening enterprises will be abolished one month from the day of promulgation of these new measures. (2) The city will resolutely curtail the "three disturbances"

and protect enterprises' legal rights and privileges. It will set up a responsibility system and a reporting system to curb the "three disturbances" and curtail all unhealthy tendencies that are eroding enterprises' retained profits. (3) The city will expand enterprises' right to manage their own fixed asset investments. So long as the projects comply with the state's industrial policy, are within the state's investment control scope, and do not require the city to balance the necessary funds and so on, as soon as they are examined and verified by the department in charge of that trade or industry, enterprises may approve any production-oriented capital construction project worth 5 million yuan or less, and for technological transformation projects worth 10 million yuan or less, they should report to the city's Planning Commission and follow the usual procedure. (4) Upon approval, enterprises which are receiving special assistance, which urgently need to be developed, and which have many technological transformation duties may adopt the method of adding up their taxes and profits to determine a contract base, pay their taxes as required by law, and a fixed percentage of any above-base revenue will be returned to them by the finance ministry as an investment. Such contract may be fixed for a period of five years. (5) Profitable enterprises that are more resilient may obtain a new product development fund based on 2 percent of their annual sales and may raise their depreciation of fixed assets to 10 percent, and they may obtain a sum equal to 1 to 2 percent of their annual sales to supplement their own circulation funds. Enterprises burdened with heavy technological transformation responsibilities and which have serious difficulties and need special assistance may obtain a new product development fund based on 1 to 2 percent of their annual sales and may raise their fixed asset depreciation rate to 8-10 percent, and they may obtain a sum equal to 1 percent of their annual sales to supplement their own circulation funds.

(6) The city encourages enterprises to develop new products and accelerate the secondary development and application of the results of their R&D. Upon examination and verification by the department in charge of enterprises, enterprises that need loans will be given preferential treatment, and if approved by the finance department, they will be given the discount rate as a subsidy. Successful projects will be awarded the same tax-exempt status as other new products, and enterprises will have the right to set their own prices during the trial-sale period. For the unsuccessful projects, the losses may be listed as a nonoperating expense if approved by the finance department. (7) Foreign trade companies should give preference to enterprises that export goods worth over \$1 million and charge them a lower agency fee. Enterprises earning more than \$3 million through exporting will enjoy the same preferential treatment as that extended by the city government to enterprises in the production bases. If the local foreign trade companies are unable to serve as their agents, enterprises will be free to choose their own ports, and qualified enterprises

will be given the right to handle their own exports. Enterprises may implement "multiple systems under one roof" and diversify their operation. Collective enterprises set up by surplus enterprise workers which are independently accountable and which are responsible for their own profits and losses will enjoy the same preferential treatment as other newly created township collective enterprises. Enterprises will be permitted to use their surplus equipment, their own funds, and their own technology to set up, head, or link up with others to set up neighborhood and township enterprises. They will receive preferential treatment in terms of tax exemption and reduction and so on. (8) Enterprises will be given more power to set product prices. Enterprises are free to raise the price of quality products so long as it stays within the range set by the state. During the trial-sale period of a new product, enterprises are free to set their own prices. If approved by the Department of Commodity Prices, enterprises may attach a material price differential to the planned products that contain extraplan materials.

Shanghai Municipal Economic Commission: Several Concrete Measures To Enliven Large- and Medium-Sized Enterprises—Xiao Jiang [2556 3068]

Giving Enterprises Their Decision-Making Rights:

1. With respect to production management, the bureau in charge will only take care of the mandatory plans handed down by the state and by the municipality. The rest will be up to the companies and enterprises to make their own management decisions.
2. The municipality will continue to apply the method of linking the total wage bill to profitability or other economic indicators and will further make sure that enterprises are free to determine their own form of wage payment and method of distributing bonuses. The government departments will only oversee enterprises' total wage bill, the source of funds, and their democratic allocation process and will examine and verify the wages of enterprise leading cadres according to each cadre's management jurisdiction. The rest will be decided by enterprises themselves.
3. The municipality will strictly comply with the state's price management standards to manage product prices and will follow the report-for-approval and declaration procedures. Enterprises are free to set the price of products not listed in the catalogs of the State or Municipal Administration of Commodity Prices. The bureau (company) in charge will no longer control the price of products not listed in the Administration of Commodity Prices catalogs, and the Administration will continue to reduce the types of products it lists.
4. The municipality will make sure that enterprises have the right to set up their own internal organs. No higher level units should interfere, nor should they base their evaluation of enterprise performance on the way these organs are set up.

Deepening the Reform Process:

1. The municipality will experiment with the reform of the labor and wage systems which will be centered around the job contract system in qualified enterprises and trades and industries. In addition, several enterprises will be selected to experiment with the reform of the labor, wage, and insurance systems which will be centered around the all-workers labor contract system.

2. The pilot project involving the shareholding system will be expanded. The municipality will actively experiment with the shareholding system whereby enterprises will buy into each other and own each other's stocks. It will further perfect the enterprise shareholding system now being tested and will actively but cautiously experiment with the setting up of limited liability, shareholding companies with Chinese and foreign shareholders among the enterprise groups and enterprises in the Pudong New Zone.

Henan Province: Designate a Group of Enterprises as Decontrol Experimental Units and Let Enterprises Pave the Way for More Advanced Reforms—Zheng Yin [6774 6892]

Henan has designated 45 enterprises as experimental units to test the decontrol program.

To an extent, enterprises in the pilot project may break some of the current enterprises reform rules and regulations in carrying out some advanced reform experiments. Enterprise managers now have the right to nominate, hire, or fire their deputy administrators and the "three chiefs." They have the right to determine their internal management format, install their own internal organs, and implement diverse allocation methods. Guided by the Labor Department, and without any quota restriction, they also have the right to openly recruit local nonagricultural workers. They also have the right to legally dismiss their workers. They have the right to set the price of products not under the state's pricing system, and if the products are under the state's pricing system, they have the right to adjust the price downwards as long as it stays within the permitted range. Enterprises are free to market those products which they produce using raw materials they have purchased on their own, but products they sell themselves will be allocated centrally. Enterprises have the right to manage their own foreign trade, the right to choose which port to ship their goods out of, and the right to build factories overseas, to import and export directly, to submit their own tax reports, and deposit their spot exchange, and so on. Enterprises are free to bring in foreign capital of less than \$5 million. With respect to technological transformations, they have the same right to examine and approve projects as the cities and prefectures. They are free to set up projects worth less than 10 million yuan, so long as they comply with the state's industrial policy. Enterprises using their own funds to make technological improvements are exempt from paying income tax on their additional profit for a period of one to three years and increase their depreciation of fixed assets by 1-2

percent a year. Beginning in 1991, each year, the financial ministry will refund 20 percent of the money enterprises in the pilot project have delivered in excess of their contract base. Enterprises may take out 10-20 percent of their retained profit, based on 50 percent of the current interest rate, they will be charged a state-assigned circulation fund utilization fee on a monthly basis. The bank will repay enterprises in full as a way to increase and supplement the state-allocated circulation fund and so on. When enterprises in the pilot project raise capital to fund the importation of foreign technology to facilitate their own technological transformation, they should also make arrangements for the circulation funds they will need when they go into production. If they fall short, they may take out 30 percent of their new-earned profit to supplement their circulation funds.

Ningbo City: Promulgating Several Regulations To Further Enliven Large- and Medium-Sized and the Mainstay Enterprises—Ningbo

To encourage and support enterprise technological transformation, there are the following important measures:

1. The technological improvement norm has been included in the responsibility contracts and in the factory director's goals during his term.

2. The composite rate of depreciation of fixed assets and the new product development fund enterprises collect will be raised by 1 percentage point. Payment of principal and interest on bonds to fund the city's key technological transformation projects with pre-tax funds will be permitted.

3. During the debt repayment period, the additional profit generated by a handful of key projects will enjoy tax reduction or exemption when those enterprises go into production so that they can pay off their debts sooner. If approved, state-run enterprises that invest more than 500,000 yuan of their own money on technological improvements will be exempt from paying income tax on their additional profit for a period of two years. If only some of enterprises' own funds were used, the exemption will be proportional to what they put in.

4. A technological improvement responsibility system will be put into effect. Those who have entered into technological improvement investment contracts may take out 30 percent of their contracted investment amount to be spent on the unit's collective welfare and on bonus payment to workers who have contributed to the project. Those who pay off their debts early may take out 30 percent from the interest payment on their contracted loans to reward workers who have made a contribution. If a project goes into production on time and meets its design requirements within the first year, on the next year the wages of the enterprise's legal representative and the project manager will be raised by one grade within two years' time, and if it meets its design requirements three years in a row, the representative and the manager will receive a permanent promotion on the fourth year. Those in charge of projects that cannot generate the intended benefits or that produce

low-quality products will be held administratively and even legally responsible and will be made to pay back the routine bonuses they received during the course of the project.

To help the industrial enterprises cut loss and increase profit, there are the following measures:

1. Enterprises will be supervised at separate levels, and each level will have its responsibilities. The department in charge of enterprises will sign a two-way responsibility pledge with enterprises to cut loss and increase profit within a set period of time.
2. Banks will provide enterprises that have signed the responsibility pledge with the necessary circulation funds during the term of the agreement. They will be more lenient about charging additional interest or imposing penalty interest. Sales and marketing people are allowed to test the "five joint and one remuneration" system—joint purchases, joint sales, joint prices, joint expenses, and joint retrieval of payment for goods and remuneration based on a percentage of total purchase and sales. Enterprises that suffer loss as a result of government policies can apply for exemption from the payment of state-appropriated circulation fund utilization fee and industrial structure regulation fund.
3. With respect to awards and penalties, workers in enterprises that manage to fulfill or over-fulfill the current year's loss reduction or profit increase goals will receive an average bonus that equals three months' (in the case of enterprises that cut loss) to four months' (in the case of enterprises that increase profit) pay, and as for the managers, their bonus will vary depending on the situation; they will probably get twice of what the average worker gets. If an enterprise is linking wages to profit, and if it must cut wages, it may reduce the necessary wage-cut by 50 percent.

With regard to giving enterprises their right to make decisions and deepening the internal reform process, the city will further reiterate and clarify that enterprises have the right to make production and management decisions, the right to decide whom they hire, the right to determine how they allocate funds, the right to install organs as they see fit, and the right to decide on the circulation of key factors of production. The city has asked that all fines, fees, and apportionments be sorted out carefully and all inspection, evaluation, and examination prior to acceptance be tightly controlled. The city will uphold and perfect the factory director (manager) responsibility system and will deepen the reform of the internal labor utilization and allocation systems. It will perfect the internal economic responsibility system and enhance democratic management.

Hunan Provincial Commission for Restructuring the Economic System: Several Suggestions on Enlivening Large- and Medium-Sized Enterprises—Xin Ye [0207 2814]

1. We must uphold and perfect the contract management responsibility system and focus on the characteristics of

large- and medium-sized enterprises to make the second round of contracting a success. (a) We should include the planned mandatory tasks in the responsibility contracts and give them equal status as the profit norm and make sure that everything is indeed "taken care of and guaranteed." (b) Under the current double track pricing system, when we determine the contract base, we must figure out the profit differential based on the difference between "planned" and "market" prices to determine a proper base so that enterprises need not sacrifice profit in order to fulfill the mandatory plan. (c) Large- and medium-sized enterprises of different types should adopt different forms of contract system. The profit-oriented, competitive enterprises have fewer mandatory plans; their contract base should be readjusted according to the average profit rate of similar products or of enterprises in the same line of business. Enterprises that are profit-oriented but face little competition have more mandatory duties. In determining their contract base, consideration must be given to price changes and to the coefficient of the share of mandatory plan to properly readjust the profit allocation relationship.

2. We need to implement a biased policy that is compatible with the state's industrial policy. We must make an earnest effort to correct the "reversed biased policy" and promulgate a biased policy with regard to funds, foreign exchange, raw material, and transportation which is compatible with the status of the large- and medium-sized enterprises and with the state's industrial policy in order to improve the large- and medium-sized enterprises' external environment. Just as when we set up the specialized plants a couple of years ago, we should implement preferential policies in terms of taxation, allocation, and labor utilization to change enterprises' mechanisms and decontrol their operations.

3. We need to develop lateral ties and organize enterprise groups headed by the large- and medium-sized mainstay enterprises. We should make enterprise groups the main form of organization that circulates and recombines the key factors of production among enterprises and gradually form a socialized, professionally coordinated, extensive production network. We need to take steps to resolve the difficult points we may run into when we set up enterprise groups today: (a) We should merge and combine the money-losing enterprises. Enterprises that are being taken over and which have more liability than equity should be allowed to shut down completely. (b) More funds will be allocated to get enterprises moving again so that the stock of goods can be circulated normally after the merger. (c) Enterprise groups will gradually be put on separate planning lists, or they can enter into a group contract. (d) Enterprises that produce goods which can be sold overseas should be given foreign trade rights.

4. We should readjust the administrative system. As soon as possible, we should classify large- and medium-sized enterprises by grades and by trade and manage them accordingly, gradually switching from the system of administration by department to administration by

trade. We should compile statistics, allocate funds and goods and materials, and examine and evaluate all products by trade and make plans to facilitate their development by trade. In particular, we must classify the tax categories properly and set the proper profit retention percentages, so that the central and the local governments each assumes its share of responsibilities and gets its share of the profit. The state and the provinces should remain in charge of large- and medium-sized enterprises that are large in scope, have broad ramifications, and which have an impact on the national economy and the people's livelihood, but the rest should be left to market regulations. Enterprises that compete in the market should be administered by the urban centers.

Relevant Departments of Jilin City: Several Issues Which Must Be Resolved in Enlivening Large- and Medium-Sized Enterprises—Yi Wen [3015 2429]

(1) We should provide different types of guidance and enliven large- and medium-sized enterprises over time and in batches. In accordance with the industrial policy and based on the enterprise scope, level of profitability, management base, and enterprise quality and so on, we should select a group of large- and medium-sized enterprises to implement a special policy and give these enterprises even more production and management rights. (2) We must maintain the continuity and stability of the series of rules and regulations promulgated by the state, the province, and the city to increase enterprises' right to make decisions and to increase enterprise vitality. (3) We must uphold and perfect the enterprise contract management responsibility system, further deepen enterprise internal reform, and safeguard the powers bestowed on the factory directors (managers) by the Enterprise Law. We should change the existing eight-grade wage system into a job- and skill-based wage system and widen the income gap by a reasonable amount. Qualified enterprises may be managed under the whole staff contract system on a trial basis. (4) We should gather funds via many channels, step up technological transformation, and boost the large- and medium-sized enterprises' staying power. We can raise the composite rate of depreciation of fixed assets to a reasonable level for the more resilient large- and medium-sized state-run enterprises. We should set up a pilot project to reassess the value of assets of the large- and medium-sized mainstay state-run enterprises that have many technological improvement tasks and speed up the depreciation of those assets based on their reassessed value. We should continue to allow the large- and medium-sized state-run enterprises to pay their debts with pre-tax funds. If approved by the government at their level, a few state-run enterprises which have been singled out by the state or the province or the city for special support, which have many technological transformation duties, and which cannot afford to repay their debts may be exempt from paying profit tax for a specific period of time after they go into production to help them pay off their debts sooner. (5) We should set up a new product development fund. Enterprises may obtain such fund based on 1-2 percent of their total sales. This

special fund is reserved for special use and should be entered separately as cost in the accounting books. (6) We should gradually ease the tight supply of circulation funds for large- and medium-sized enterprises. Large- and medium-sized enterprises implementing the contract responsibility system may take out a certain percentage of their retained profit to supplement their circulation fund. The amount should be stipulated in their responsibility contracts and strictly verified. In accordance with the state's industrial policy, the banks and the finance department should adopt a differential interest policy and provide the large- and medium-sized enterprises with fixed-quota circulation fund loans at low interest or at discount rate. (7) We should further expand the large- and medium-sized enterprises' right to make production and management decisions. We should further reduce the categories and quantity of products under mandatory planning being assigned to the large- and medium-sized enterprises and increase the share of goods they may market on their own. For products which must be remain under mandatory plans at this time, we can allow enterprises to "guarantee quantity but not the price" of a fixed percentage of them: The goods will be allocated under state plans, but enterprises are free to set the price. Qualified mainstay enterprises should be given the right to engage in foreign trade activities. (8) We must make an earnest effort to reduce the large- and medium-sized enterprises' burden. Large- and medium-sized enterprises that have their own schools and commercial facilities should be exempt from all or part of the educational surcharge and commercial outlet fee. (9) We must make sure that large- and medium-sized enterprises have the proper production conditions. Enterprises with mandatory production responsibilities should be given priority, and arrangements should be made at the central level to facilitate their production, supply, sales, and transportation. (10) More power to manage product prices will be handed down. With respect to the planned products, if an increase in the price raw materials should raise the production cost, the large- and medium-sized enterprises may add a raw material differential price to the planned price. Enterprises may charge whatever the market will bear for extra-plan or above-quota industrial means of production they produce. The price of extra-plan products which enterprises produce using negotiated-price raw materials is not under control. Enterprises may set the trial-sale prices of products recognized to be new products. The price of goods enterprises produce for direct export or the foreign trade department procures for export is not under control. The regulation and interchange of goods and materials between planned and extra-plan products will be permitted, and the resulting price differential should be accounted for separately; it will not be regarded as profit and may be rolled over and spent as enterprises see fit. Large and medium enterprises will be free to sell at the market price any planned product they have produced but have not been transferred or allocated or purchased by the state within a certain period of time. (11) We need to promulgate a set of versatile marketing policies and develop more new markets. We should implement a sales contract system

for all products except those transferred and allocated under state plans and the hot-selling products. Qualified products can be put under one big contract. We should allow the sales personnel to get larger bonuses. The banks will not try to recover any loan fund out of funds enterprises have gathered by clearing out their overstocked and unmarketable goods. The banks need not treat those enterprises that incur losses as a result of the clearing out of their overstocked goods as money-losing enterprises. Enterprises that have difficulty paying taxes may follow procedure and apply for a one-time tax reduction or exemption. For enterprises that link wages to profit, if the clearing out of overstocked products has adversely affected their profit, upon a approval by the finance and labor departments, they will be deemed to have fulfilled their profit base.

Tian Jiyun Discusses Easing Retail Controls

91CE0674A Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 10, 20 May 91 p 23

[Text] State Council Vice Premier Tian Jiyun [3944 4764 0061] recently made several points regarding deepening reforms in the commercial sector.

I advocate enlivening retail sales and managing wholesaling. Of course there must be a differentiation according to products, and state-run enterprises must tightly manage the wholesaling of certain listed products. The opposite is true for retail sales; controls should be eased except for certain listed products. I contend that state-run enterprises must handle mainly wholesaling and have basic monopolies over important production and production materials related to state planning. Wholesaling must basically be in the hands of state-run enterprises while also easing controls within limits. Regarding retail sales, controls should be eased with the exception of stipulating items that are not allowed to be sold. Overly tight controls on retail sales will not work. Excess personnel in state-run enterprises shall engage in retail sales.

At present, state-run enterprises are tightly controlled, collectives are loosely controlled, and individually-owned enterprises cannot be controlled. First, there are unfair policies, and second, in some state-run enterprises business is casual. We must draw them out with policies. Commercial problems must be resolved through reform. It will not do to go backward, nor should we.

As for my thoughts on deepening reforms in the commercial sector, I wonder whether we can enliven things by having basic monopolies on wholesaling by state-run enterprises and easing controls on retail sales except for certain listed products. State-run enterprises should fall under the same policies as collectives and individually-owned enterprises, with equal competition for all. The talents of state-run enterprises cannot be inferior to those of small peddlars. The issue is one of unfair competitive conditions. We must assist state-run commercial sectors in resolving some operational issues and

adopting different reform measures. We can make collective groups of wholesaling enterprises. This would be beneficial to macroeconomic readjustment and control and market stabilization.

Analysis of Capital Steel's Reform Experience

Lessons for State Enterprise Sector

91CE0673A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 6, 5 Jun 91 pp 4-5

[Article by Bai Jiefu (4101 0094 1133); Editor, An Luming (1344 6424 2494): "Lessons Learned From Capital Steel's Reform Experience"]

[Text] The Capital Iron and Steel Corp (Capital Steel) is a large enterprise with 180,000 staff members and workers. Since the Third Plenary Session of the 11th CPC Central Committee, the state has approved it as a reform pilot project enterprise. The major policies granted by the state to Capital Steel are firm contract bases, ensured payments to the state, retention of all above-contract profits, individual responsibility for debts, no further recoupment of state investment, and all costs for increasing production and improving staff members and workers' living conditions coming out of enterprise retained profits. While these policies have given Capital Steel the necessary mechanisms for self-stimulation, self-accumulation, self-upgrading, and self-development, and enabled it to achieve good results in sustained and large-scale improvement of its economic efficiency, the lack of public understanding of its overall situation has led to disagreement over how to assess its pilot project reform process. Some people have commented that Capital Steel's improved efficiency is due to the "preferential policies" granted to it by the state, mainly lower contract bases and higher percentages of independent sales.

The Beijing Municipal CPC Committee recently sent a fact-finding group to conduct a thorough investigation of Capital Steel. The data provided by this fact-finding group shows that Capital Steel's contract bases are certainly not low, and that its profits turned over to the state have increased at an average rate of 7.2 percent a year, which is higher than the rate of increase in realized profits for many other large enterprises. While the state plan gives Capital Steel the authority to market 15 percent of its common rolled carbon steel on its own, which is certainly a slightly higher percentage than that allowed to other large steel mills, this is not an exceptional preference in the context of adjustment of the national economy and sluggish rolled steel sales, but rather is a major reform in steering large enterprises into the socialist commodity economy. Even more significant is that not only has the amount of rolled steel allocated by the state from Capital Steel not decreased, but rather it has increased at an average rate of 9.3 percent a year, which is a higher rate than that of most other steel mills. That Capital Steel's rolled steel output had increased from 1.17 million tons in 1978 to 3.81 million tons by

1990, shows that developing a socialist commodity economy with state guidance can speed up production growth sharply.

Once Capital Steel put the contract management responsibility system into effect, it quickly shifted its work priority to improvement of its economic efficiency. While Capital Steel's realized profits and taxes amounted to only 377 million yuan in 1978 before reform began, they had reached 2.625 billion yuan by 1990, or 6.96 times their pre-reform level. The enlargement of this realized profit and tax "cake" brought increased benefits for all three parties, i.e., the state, the Capital Steel enterprise, and its staff members and workers, with the state benefitting the most. While Capital Steel paid 371 million yuan to the state in 1978, which, after deducting that year's 182 million yuan in recoupment of state investment, left a net of 189 million yuan being paid to the state, the 1.499 billion yuan that it paid to the state in 1990 was 7.9 times that of 1987. While Capital Steel's cumulative contribution to the state in the three decades before reform was 3.246 billion yuan (including 1.689 billion yuan as recoupment of state investment in fixed assets), its contribution to the state in the 12 years after reform amounted to 13.3 billion yuan (including 3.71 billion yuan in new increased state assets that Capital Steel paid for with its own money). That its 12-year post-reform contribution was 4.1 times its 30-year pre-reform one, shows that it is the state that has benefited the most from Capital Steel's implementation of the contract management responsibility system.

Along with ensuring yearly increases in revenue for the state and steadily increasing its retained profits, Capital Steel has also made great advances in modernization and upgrading. Capital Steel's retained profits are distributed and used in a ratio of 6:2:2, with production development accounting for 60 percent, and collective welfare and wage-bonuses accounting for 20 percent each. In 12 years of reform, Capital Steel retained profits of 4.975 billion yuan, 60 percent of which was in addition to depreciation and overhaul funds, invested 4.27 billion yuan in production development, and completed 4,036 upgrading and construction projects, 108 of which were key ones. This upgrading has made all of its key equipment, such as iron-smelting, steelmaking, and steel rolling, computer controlled, bringing it up to current advanced international standards.

Along with these production developments, it has also correspondingly improved its staff members and workers' living conditions. Capital Steel links payrolls to realized profits in a floating ratio of 0.8:1. Its yearly increases in realized profits had raised the average monthly income of its staff members and workers from 61.57 yuan in pre-reform 1978 to 280 yuan by 1990, for an increase of 350 percent. It has used collective welfare funds to construct 1.72 million sq m of housing, set up a large number of agricultural, livestock, and nonstaple food bases, and build food processing assembly lines and various educational facilities.

Assessment of enterprise economic efficiency is based not on output and output value alone, but even more importantly on the input-output ratio. That is, high efficiency is based on tying up less of the state's fixed assets and circulating funds, and creating more profits and taxes. The best index of economic efficiency is the fund-profit/tax margin. While Capital Steel's fund-profit/tax margin was only 25.67 percent in 1978, it had reached 66.44 percent by 1990, or 2.59 times its pre-reform level, and the highest in its industry.

In a government work report, Premier Li Peng emphasized that further invigoration of large- and medium-sized state-owned enterprises is a future economic reform priority, which will have a direct impact on the development of China's economy and the consolidation of socialism. While this matter had been brought up as long ago as the Third Plenary Session of the 12th CPC Central Committee in 1982, many large- and medium-size enterprises have still not been invigorated eight or nine years later. Practice has proven that Capital Steel has created the following major valuable experiences in enterprise invigoration: 1) It adopted the method of rigid contracting with the state on one hand, along with open-ended profit retention on the other. Capital Steel began contracting in 1979, practicing one-year contracts in 1979 and 1980, putting rigid contract bases and retention of all above-contract profits into effect in 1981, and instituting a progressive guaranteed payment system in 1982. It first set the progressive rate at 6 percent, and later took the initiative to raise it to 7.2 percent. Earning increasingly higher profits enabled increasingly more profits to be kept, and increased investment in technological upgrading led to the earning of even greater profits. This formed a good cycle of fund rollover and proliferation, drove enterprises to constantly enlarge the "cake," and brought simultaneous benefit increases to the state, enterprises, and staff members and workers. 2) It established within an enterprise the contract management responsibility system, which combined duties, rights, and interests level by level, and made the individual the focus of contract guarantees. 3) It practiced full contracting of all personnel and democratic management, and established a complete set of democratic management regulations that made staff members and workers the masters. 4) It established and perfected various rules and regulations, upheld strict factory control, and practiced distribution according to work based on strict evaluations. 5) It permitted cadre promotions and demotions. It practiced a system of personnel selection through examination and assessment of proficiency, chose and appointed personnel according to ability, made the best possible use of personnel, and changed an average of 9.1 percent of its leading cadres above the factory section level each year. Moreover, it made a comprehensive improvement in the proficiency of its staff members and workers, 46 percent of whom now have higher than technical high school educations. 6) It supported political leadership by party committees, and continuously intensified party ideological and political indoctrination.

These rich experiences that Capital Steel accumulated in its pilot project reforms have taught us the following profound lessons:

1. Capital Steel's experience shows that large state-owned enterprises certainly do not necessarily have to be inefficient. Reform, the contract management responsibility system, and bringing the initiative of the vast numbers of enterprise staff members and workers as the masters into full play, can make enterprises full of vitality and vigor, while enabling them to remain under public ownership. Invigorating these large enterprises demonstrates the superiority of socialism, showing that it has high hopes of success.

2. The contract policies granted by the state to Capital Steel have not only invigorated this enterprise, but have also increased state revenue. It is understood that many enterprises are asking to be granted the same policies as were granted to Capital Steel. As Capital Steel was able to achieve such good results with these "preferential policies," why should they not be turned into "regular policies" that all can enjoy?

3. While the key idea of the contract policies granted by the state to Capital Steel was to turn on the water in order to "make the enterprise a reservoir of wealth," which enriched the enterprise but even more so the state, finance departments usually put enterprise and state enrichment in opposition to each other, thinking that giving to enterprises means taking from the state. As far back as in a 1942 article entitled "Financial and Economic Problems During the War of Resistance Against Japan," Comrade Mao Zedong had spoken as follows: "Even though developing our economy and ensuring supplies is our general financial and economic policy, many comrades put undue emphasis on finance, while misrepresenting the overall importance of economic matters. They get bogged down in racking their brains all day on purely revenue and expenditure matters, without being able to resolve anything despite their efforts. This is because outdated, conservative ideas are doing mischief in these comrades' minds. While not understanding that the quality of financial policy naturally is enough to affect the economy, they have still decided that finance is really economics, that fiscal difficulties can be resolved without a solid economic foundation, and that financial abundance can be achieved without economic development." Comrade Mao Zedong's words have great immediacy, in that it is always impossible to resolve fiscal difficulties without invigorating enterprises and increasing production.

4. The major reason why it has been impossible to invigorate large enterprises is that they have too many tax categories and too heavy burdens. Budgeted state-owned enterprises throughout China retained only 8.9 percent of their realized profits in 1990. Thus, decisive steps must be taken to ease enterprise burdens. Moreover, the contract bases of large enterprises should not be set too high. In particular, the contract bases of large enterprises whose development is in keeping with

national industrial policy should be set lower, so that they can recuperate and build up their strength, keep more financial reserves, and upgrade and expand on their own.

Li Yining's Comments

91CE0673B Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 9, 5 May 91 pp 32-33

[Article edited by Zhang Xinlin (1728 2450 2651): "Li Yining Comments on Capital Steel's Experiences"]

[Text] Beijing University Professor Li Yining [0632 0110 1337] recently set forth his views on "Capital Steel's" experiences.

Li Yining commented as follows on Capital Steel's current position: While Capital Steel has taken a great step forward on the path of reform, it has not yet reached its destination, and is still some way off from being a goal model. The three indications that it had become a goal model would be that it had, 1) acquired management decisionmaking power by breaking its business management free from government administration, 2) assumed the sole responsibility for its profits or losses and set up self-restraint mechanisms and, 3) acquired control over the circulation, and was able to optimize the makeup, of its key production factors. Capital Steel is still some way off from being a goal model because it has not yet truly broken its business management free from government administration, and does not yet enjoy full decision-making power. Until it has broken its business management free from government administration, it will be unable to truly assume the sole responsibility for its profits or losses, and will continue to experience difficulty in acquiring control over the circulation of its key production factors.

Li Yining cited the following five current unfavorable public assessments of Capital Steel's successes: 1) The public finance sector has emphasized repeatedly that Capital Steel's model must not be copied because it leads to a loss of state revenue. An increase of only 7.2 percent in profits paid to the state, along with the current high rate of inflation, would mean losses for the state. 2) Planning commission comrades say that it would be impossible to control the scope of capital construction if all enterprises were allowed to undertake projects everywhere like Capital Steel (referring to its big Qilu mill). 3) The materials sector says that Capital Steel is allowed too big a percentage of independent sales, and that it would be unable to control the situation if other enterprises were allowed such a high percentage of independent sales. 4) The Ministry of Metallurgical Industry says that it is unable to control Capital Steel because it is not under its jurisdiction. 5) Theoretical circles have noted that while Capital Steel's model per se is good, it is not standard, and a nonstandard model should not be popularized.

Li Yining disagreed with these assessments as follows: The Ministry of Finance's assessment is wrong, and

Capital Steel's position is right, because the water must be turned on to transform enterprises and their productive forces into reservoirs of wealth. The Planning Commission's assessment is also biased, because the state should control projects that are not in keeping with industrial policy. If Capital Steel's Qilu project is in keeping with state industrial policy, the state should not control it too rigidly. I cannot agree with the materials sector's assessment either, because all enterprises should be allowed the same higher percentage of independent sales as Capital Steel, directive planning should be reduced gradually, and enterprises should be encouraged to market on their own products they can produce in excess of production targets, and to reduce costs. The Ministry of Metallurgical Industry's assessment is also wrong because, in order to invigorate enterprises, the Ministry of Metallurgical Industry should control only general policies and principles. If it tried to control everything, how could enterprises ever develop?

Li Yining commented that the theoretical circles' assessment must be taken seriously as follows: That is, as Capital Steel per se is not a reform goal model, while its current successes should be affirmed, it has not yet reached its destination. The crux of the matter is how to standardize the management of national assets. The direction of national assets management reform is toward the separation of taxes from profits, and the separation of the state's ownership and management functions. I disagree with Yang Peixin [2799 1014 2450] that the separation of taxes from profits is an indiscriminate imitation of the West. Many people are confused on this point, and even enterprises mistakenly think that the separation of taxes from profits would be disadvantageous to them. The key problem is that tax rates are set too high, and the Ministry of Finance's practice of killing the hen to get at the eggs can only doom enterprises. Under the contract system, enterprises must make up losses with their own funds. While the separation of taxes from profits would benefit enterprises, because profits would be paid to the state only if they were earned, two conditions are not ripe for its implementation. That is, national assets property rights have not been truly standardized, and our pricing system has not been rationalized, which means that the separation of taxes from profits must remain a pilot project.

Li Yining made the following detailed analysis of the causes of Capital Steel's successes: While some of Capital Steel's current successes have resulted from reform, others have not. For instance, factors, such as improved cadre proficiency, enhanced ideological and political indoctrination, an improved management base, and increased product sales, must be distinguished, and all successes must not be imputed to the contract management responsibility system. I think that many successes are due to the contract management responsibility system. For instance, that contracted enterprises have more decisionmaking power and more accumulated funds for upgrading their technology, are both reform-related. But other successes are not necessarily related to

contract management. For instance, Capital Steel's well-placed emphasis on ideological and political indoctrination in the 1950's is unrelated and cannot be linked to contract management.

Which of Capital Steel's practices should be copied, and which not? Certain outsiders have said that Capital Steel is, 1) not allowed to be copied, 2) not dared to be copied, and 3) impossible to copy. Li Yining remarked that Capital Steel has the following four practices that can be learned from, but must be supplemented: 1) It has generally persisted in putting the State's interests first, while correctly handling the relations among the interests of the State, enterprises, and staff members and workers. 2) It has established an internal contract management responsibility system. While there is basically no management within many enterprises, where contracting is substituted for management, Capital Steel has a host of internal contract regulations as its foundation, which should be popularized. 3) Emphasis must be placed on the technological upgrading of enterprises, most enterprise funds should go to technological upgrading, and shortsighted actions should be eliminated. 4) Cross-industrial management should be practiced, and multipurpose enterprises should be set up, in which there is mutual supplementation and enhanced contingency capability.

Li Yining has several reservations about Capital Steel's practices. For instance, contract periods are 15 years, and it is very hard to predict conditions 15 years in advance, for the finance sector in particular.

Li Yining's overall assessment of Capital Steel is that it has gone only halfway on the reform path, so that the contract management responsibility system is not a goal model, but is merely a feasible option for the current stage.

Three Stages of Combining Planned, Market Economy

91CE0727A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 91 pp 13-16

[Article by Zhang Sai (1728 1049): "Development Models for Combining Planning With the Market"]

[Text] Combining Planning and the Market: The Current Situation

Since the Third Plenum of the 13th CPC Central Committee, China's socialist commodity economy has made steady headway and the combination of planning and the market is being intensified ceaselessly. Judging from the current situation, the decade old planning-market combination has gone through three stages.

1) The period of the introduction of the market mechanism (1979-1984). Economic structural reform got under way in 1979. National economic management methods were improved. The scope of command planning was

gradually reduced while guidance planning and market regulation became relatively more important. The law of value was taken more seriously throughout society. The scope of the market was expanded progressively. The consumer goods market was maturing systematically. The capital goods procurement and selling market under the planned guidance of the state was also beginning to take shape. In addition, a capital market and a technology market emerged. During this period, the market mechanism had just been introduced into the planned economy and had not developed in a major way. Its impact on the operations of the economy was minimal.

2) The early development of the market mechanism (1985-1988). Both the planning mechanism and the market mechanism were influencing market operations. Conflicts had begun to appear between the two. Compared to the earlier period, the market had grown in breadth and depth. The capital goods market and short-term fund market were growing rapidly. Society-wide the prices of about one-half of the commodities were already being regulated by the market to varying degrees. The methods of macroeconomic regulation and control were further transformed. The number of products under command planning management and the categories of materials centrally allocated had been significantly reduced. Banking and taxation had become important tools of national economic management. In the wake of the initial development of the market mechanism and the initial change in the planning mechanism, enterprises were energized. However, the change in the traditional planning mechanism had been slow. It was ill-suited to the new commodity economy and incompatible with the operations of the market mechanism. Moreover, the market mechanism itself was still immature. As a result, there was constant friction between the two in the course of economic operations, significantly lowering the efficiency of resource allocation and undermining the stable coordinated development of the national economy.

3) During the period from 1988 up to the present, the relations between planning and the market were adjusted, planning management was improved, the market order was rectified, and the market became more functional. As conflicts between the planning mechanism and market mechanism intensified, the imbalance in the national economy worsened. There was no coordination between the various principal economic entities. Material and financial resources under the direct control of the state were dwindling rapidly. Macroeconomic regulation and control by the state was not strong enough. The plan, particularly command planning, was not being executed. With all that in mind, the state moved to adjust the relations between planning and the market even as it sought to improve the economic climate and rectify the economic order. By reasserting the integrity and authoritativeness of command planning, re-centralizing funds and materials, and improving the market order, the state has removed the superficial tension between the traditional planning mechanism and

the market mechanism up to a point and created a relatively stable environment for the next step in its drive to reform the planning mechanism and expedite the maturing of the market.

By and large the planning mechanism and the market mechanism are still each doing their thing independent of the other at all levels of economic operations at the present stage. There is neither coordination nor cooperation. Basically it is a superficial kind of combination.

There are two important and direct reasons why the change in the planning mechanism has been slow, why the market mechanism remains underdeveloped, and why the two clash endlessly and cannot be coordinated with each other. First, the price system is irrational. The price mechanism lies at the very heart of the market mechanism. A sound price system can guide the sound allocation and utilization of resources and regulate the economy properly. In contrast, when the price system is skewed, price signals distorted, and price mechanism not maturing properly, administrative means are resorted to regulate and control economic operations. The introduction of administrative tools and the underdevelopment of the price mechanism, in turn, prevent prices from fulfilling their regulatory role properly. The result is a lopsided economic structure and economic disorder. During the past several years, the assortment of problems in the nation's economy has all been related directly or indirectly to irrational prices and to our failure to understand the law of value comprehensively and thoroughly or to operate in strict accordance with it. Second, the lack of variety in the methods of macroeconomic regulation and control is ill suited to the development of the commodity economy. In the last couple of years, such methods have undergone more extensive changes, but direct administrative management still plays a key role in national economic management. With no coordination among them and lacking flexibility and versatility, the various means of economic leverage still bear the clear mark of direct administrative management. Consequently, economic operations remain largely trapped in a "deregulate-chaos-regulate-over-control" vicious circle.

Development Models for Combining Planning and the Market

Combining planning and the market does not mean combining the planned economy and the market economy but combining the planning mechanism and the market mechanism. Looking back at the course of history, both the modern planned economy and the modern market economy are forms of commodity economy. The two are based on a different ownership system and operate differently. It is neither necessary nor possible to combine them. In contrast, as methods of resource allocation, the planning mechanism and the market mechanism are free from the restraints of social institutions. It is both necessary and possible to combine them. In the case of the planning mechanism, the starting point is the economy as a whole. Resources throughout

society are allocated and the regulation and control of every economic entity is considered in the overall context. In the case of the market mechanism, the starting point is primarily the cell of the economy. The decentralized activities of a multitude of economic entities are regulated by price and interest rates through the intermediary of the market, thereby bringing about the rational allocation of resources throughout society. The most important manifestation of market mechanism is price and it is through competition more than anything else that the market mechanism fulfills its role. The principal manifestation of the planning mechanism, on the other hand, is the industrial policy, taxation, wage, credit, miscellaneous rules and regulations, and administrative measures. It is through noncompetitive direct and indirect distribution that the planning mechanism primarily achieves its effect. The planning mechanism and market mechanism allocate the same kinds of resources, so the question of the planning mechanism allocating only major resources and the market mechanism allocating only minor resources does not arise. The scope of the two mechanisms basically coincide, as both are society-wide, so again it is not a case of the planning mechanism being suitable only at the macroeconomic level and the market mechanism being suitable only at the microeconomic level. The planning mechanism and market mechanism differ primarily in the method of resource allocation, or, to put it differently, in the way they fulfill their role. They each have their own strengths and are complementary. For the principal economic entity that regulates and controls economic operations, therefore, the planning mechanism and market mechanism incorporate different things and make the most of their respective strengths. This is precisely why countries with a market economy practice planning and those that practice economic planning find it necessary to develop and improve their markets as well.

The organic combination of the planning mechanism and market mechanism is no simple functional reconfiguration. Instead it is intended to create a new resource allocation mechanism that incorporates both planning and the market and makes the most of their strengths in resource allocation. In the new resource allocation mechanism, the planning mechanism and market mechanism will not be on an equal footing. Nor will one be a senior partner and the other a junior partner. Instead we develop what is good in the two mechanisms and discard what is bad. It is a pooling of their strengths. It is the unification of the guidance mechanism, realization mechanism, and coordination mechanism.

The planning mechanism and market mechanism cannot be combined overnight. The combination process will take a period of time and must comprise three stages at least:

1) Superficial combination stage. As two forms of resource allocation, planning and the market require different conditions and work in different ways. There is an objective possibility they might reject and conflict

with each other. In the process of combination, therefore, both need a period of self-adjustment and mutual adaptation. In other words, the superficial combination between the planning mechanism and market mechanism is an objective fact. That combination is a stage that cannot be bypassed. However, it is not the objective of reform. Our mission is to speed up the mutual accommodation between the planning mechanism and market mechanism and accelerate the transition from superficial combination to merger.

2) Permeating and merging stage. As the change from the traditional planning mechanism is complete and the market mechanism gradually matures, the mutual rejection between the planning mechanism and market mechanism gives way to mutual accommodation. Their relations become more harmonious. The two begin to permeate and merge with each other. In the course of regulating the economy and allocating resources, they gradually coincide in the way they work and less often conflict with each other. The state uses all sorts of economic tools and economic variables to regulate and control the market and achieve the goals of state planned management through the market mechanism. But having the state regulate the market and guide economic development is not an ideal model of resource allocation, either. The planning mechanism is responsible for macroeconomic regulation while the market mechanism is responsible for microeconomic guidance. Each does its own thing and cannot substitute for the other. This is no more than a higher form of superficial combination and cannot fully overcome the conflicts between the planning mechanism and market mechanism. Thus we can see that merging combination is but a transitional stage. The duration of this stage depends on the extent to which the planning mechanism and market mechanism permeate and merge with each other.

3) The stage of the new mechanism combining the strengths of both the planning mechanism and market mechanism. When the merger between the planning mechanism and market mechanism reaches a certain point, it would inevitably create a new economic mechanism that combines the advantages of both the planning mechanism and the market mechanism. You see the new mechanism actually at work when the government, as social manager, regulates one or several economic variables and influences the operations of the economy as a whole in accordance with the demand of the law of value. Meanwhile, as the owner of state assets, the government also functions as an economic entity and participates in social economic activities. In that capacity, it influences economic operations with its economic prowess. In other words, the state achieves its goal of regulating and controlling economic operations by regulating economic variables and by participating in economic activities. The new mechanism must still make use of planning and the market. However, planning now plays a guiding role; it is market-based planning. The market mechanism, on the other hand, plays an actualizing role; it is market under the restraint of planning.

Planning and the market have completely merged in one. This kind of new economic mechanism can choose an appropriate resource allocation method and effectively allocate and use all sorts of capital goods, avoiding and overcoming any unnecessary disruption in the economy as much as possible and maintaining stable and coordinated social and economic development on a long-term basis. The development of the new mechanism is the ultimate goal of combining planning and the market.

The three stages of the planning-market combination proceed from the simple to the difficult. As far as the stage of superficial combination is concerned, the principal goal is to develop and foster the market mechanism and improve the traditional planning mechanism, gradually adapting the two methods of resource allocation to each other. Given the fact that China's industrial structure is lopsided, its economic efficiency low, its macroeconomic regulatory and control tools ineffective, and its market underdeveloped, it is estimated that it will take us anywhere from three to five years to get out of the superficial combination stage. The primary objective of the permeating and merging stage is to make the most of the strengths of the planning mechanism and market mechanism, gradually overcome their weaknesses, coordinate resource allocation, and regulate economic operations. As the level of economic development rises during this stage, the demand on the ability of the planning mechanism and market mechanism to allocate resources will also intensify. This stage will take about 10 years, maybe longer. Only then will we reach the highest level of planning mechanism-market mechanism combination.

Short-Term Measures To Expedite Planning-Market Combination

To speed up the change in the planning mechanism and the maturing of the market mechanism, we should concentrate on doing a good job in the following areas in the near future:

1) Gradually rationalize the price system and nurture the price mechanism. The key to deepening price reform is to replace subjectively determined price formation with objectively-determined price formation and develop a price formation mechanism. Accordingly, we must first set a society-wide average profit margin and form production prices so as to ensure a correct direction for price reform and make reform less haphazard. In a commodity economy, commodity producers must maximize their profits. Owing to the competition among the various commodity producers, capital circulates among production sectors that differ in organic composition, turnover rate, and therefore, profit margin, changing the supply-demand relations and prices. The result is that the profit margins of different production sectors begin to equalize, forming an average profit margin. The commodity values of different production sectors are converted into production prices, that is, cost plus average profit margin. The process of the social equalization of

profit margins is also the process of the rational allocation and utilization of all elements of production. Right now in China there is as yet no level playing field where the various economic entities can compete fairly. Enterprises cannot compete effectively to sell their products to earn extra profits. Nor can the various sectors compete effectively for more profitable investment. There is as yet no trend toward the equalization of profit margins throughout society. If we wait for the free competition between sectors to bring about the equalization of profit margins society-wide, it will take too long. Accordingly we should grasp the opportunity afforded us now by the shrinking supply-demand gaps and a relatively soft market to concentrate on "deregulation," supplemented by "regulation." Apart from the prices of some public utilities that may continue to be under centralized state control, the products of other industries can be deregulated gradually so that they can float upward or downward freely. That way the price system can be rationalized to reflect economic activities throughout society as objectively and fairly as possible, lay the foundation for the equalization of profit margins and the formation of production prices, create the conditions for fair competition, reconcile the interests of all parties, and overcome the haphazardness of free competition.

2) Improve the methods of macroeconomic management and regulate and control economic operations, flexibly using all sorts of economic tools. To begin with, reform the financial system and reverse the trend toward interest separatism. At present regional separatism and monopolism are still a serious problem. We do not have a favorable environment that will lead to the formation of a unified domestic market. As the economy rebounds, an assortment of "wars" will recur and an abnormal kind of competition fostered by miscellaneous administrative forces will further distort the economic structure, throwing the national economy into a vicious circle anew. If we are to end regional separatism, share interests in a fundamental way, and enhance the ability of the state to regulate and control the macroeconomy, it is imperative that we push ahead with the separate tax system. First divide functional powers between the central government and local authorities clearly, then separate revenue powers. On the other hand, we should adopt double-entry budgeting to overcome the "melting pot" kind of spending. The idea is to do as much as the funds we have allow us to do. Budget reform will necessarily lead to changes in the functions of government organs. It is inevitable that organs that prepare the budget will be separated from those that execute it. Second, improve the banking mechanism. One, make interest rates more flexible and sensitive. In China, interest rates are slow to react to changes in economic operations and lack the initiative to regulate the economy. An urgent matter right now is to vary interest rates to suit the reality in different industries and areas and regulate the movement of capital goods. Two, go all out to develop a capital market. Capital is the most precious element of production. The free movement of capital is an important prerequisite for fair competition. An increase in

capital mobility will facilitate the adjustment of the mix of inventories and improve output. Establishing a capital market and improving it has become an important part of the perfection of financial institutions. Third, implement and improve the various existing industrial policies. Industrial policies guide the rational allocation of resources society-wide. But due to the divorce of industrial policies from fund and material supplies, industrial policies are not as systematic, stable, and consistent as they should be. The result is that what industrial policies we have fail to do what they should do in the economic development process. In the future we should make industrial policies more scientific and stable, make full use of them in fund and material supply, and implement them in earnest. Finally, a major effort should be made to consolidate the leadership of state-owned commercial enterprises in the realm of circulation. As a bridge linking production with consumption, state-owned commerce is enormously important for ensuring normal circulation for social reproduction. In making the most of state-owned commerce, we should concentrate on the wholesale link.

3) Mobilize the initiative of enterprises and revitalize them through a "give policy." As far as state-owned enterprises are concerned, we should sort out enterprise property rights, clarify the interests of all parties, improve government management of enterprises, and revitalize enterprise operations. After enterprise property rights are sorted out, we should consider introducing the shareholding system. The shareholding system is not incompatible with public ownership. As long as the state does a good job controlling shares, the public ownership nature of the enterprise will remain unchanged and the state will still be able to carry out the national plan and influence the economy. In addition, the state should offer special treatment and apply preferential policy to certain enterprises only sparingly. As much as possible it should create a level playing field conducive to fair competition where the strong can really come out on top and the weak weeded out.

Measures intended to intensify the combination between the planning and the market are interrelated. They must be coordinated with one another if they are to be truly effective. Take pains to check the tendency to wait passively or to be impatient for success. Push ahead with reform actively but cautiously. Ensure economic growth. Grow out of the stage of superficial combination and enter the stage of permeating and merging.

Separation of Taxes, Profits

Transform Contract Management

91CE0696A Beijing JINGJI CANKAO BAO in Chinese
3 Jul 91 p 4

[Article by He Jichuan (0149 3444 1557), affiliated with the Hunan Provincial Government Office: "Replacing

Rigidity With Flexibility—An Exploration of the Transition of Enterprises From Contract Management to the Separation of Taxes From Profits"]

[Text] While the enterprise contract management responsibility system has played a proper reform role in readjusting the distribution relations between the state and enterprises, changes in the economic climate have made its following major defects increasingly conspicuous: contract management has steadily reduced the ratio of state revenue to national income; too great disparities between the incomes of some contractors and their staff members and workers have led to new instability; certain enterprises have been resorting to increasingly serious deception in order to meet contract targets and gain higher wages and bonuses; contract management has weakened enterprise tax payment mentality and deteriorated state tax collection capability; contract management has led to shortsighted enterprise actions and created new inequalities. These defects that have surfaced in the use of the contract management responsibility system to regulate the profit distribution relations between the state and enterprises, have greatly restricted external factors, made it very hard for enterprises to sign long-term contract management contracts with the state, and sharply exposed the shortsightedness and transitional nature of the contract management responsibility system. As it has been impossible for the contract management responsibility system to solve these problems, conditions have become ripe for necessary reform, based mostly on the separation of taxes from profits.

In order to standardize enterprise reform pilot projects in the separation of taxes from profits, the Ministry of Finance and the State Restructuring of the Economic System Commission issued a joint "Plan for the Implementation of State-Owned Enterprise Pilot Projects in the Separation of Taxes from Profits" (abbreviated hereafter as the "Plan"), in their Fiscal Reform Document No 2 in 1989. Its key points were as follows: it lowered the income tax rate from 55 percent to 35 percent, while eliminating regulatory taxes; it switched loan repayment from pretax to aftertax; it contracted payment to the state of aftertax profits, with bases being set according to 1988 realized enterprise profits, after deducting 35 percent in income taxes, old loan repayment bases that had been set for enterprises, and the actual amount of profits that enterprises retained in 1988 (including loan repayment collections of the "two funds"). The current point at issue is not a theoretical one, but rather a practical one, in that the quantitative targets of this pilot project plan are hard for enterprises to accept, and it does not not leave initiative to localities.

Although the "Plan" lowered the enterprise income tax rate from 55 percent to 35 percent and eliminated regulatory taxes, the sharp increase in pretax loan repayment, the decrease in the ratio of state revenue to national income, and enterprise tax payments to the state having been far lower in reality than in name in recent years, have led enterprises and their responsible

departments to believe that the separation of taxes from profits would increase enterprise burdens sharply. This is the basic reason why the reform transition to the separation of taxes from profits has been so hard to accomplish. This tells us that during the transitional phase of the transformation from contract management to the separation of taxes from profits, the readjustment of profit relations between the state and enterprises should not advance at too fast a pace or on too large a scale, and that the "Plan" must be implemented with a certain amount of flexibility. In fact, some cities have taken certain flexible steps in their implementation of reform pilot projects in the separation of taxes from profits, thus achieving the dual results of ensuring steady increases in both state revenue and enterprise retained profits. Having already widely implemented contract management, Yiyang City in Hunan Province began in 1988 the reform transition from contract management to the separation of taxes from profits in 25 of its budgeted state-owned industrial enterprises. In order to maintain policy continuity and dovetail the separation of taxes from profits with contract management, it took the following interim steps in its specific implementation of the separation of taxes from profits:

1. Except for calculating and collecting income taxes according to the plan for the separation of taxes from profits, it assessed all other enterprise economic duties and targets according to the contract management program.

2. While the "Plan" stipulated a uniform calculation and collection of 35 percent in income taxes for all enterprises, Yiyang City calculated and collected them according to a five-level supergraduated rate of 10 percent for annual profits of less than 10,000 yuan, 17 percent for 10,000 to 30,000 yuan, 24 percent for 30,000 to 100,000 yuan, 30 percent for 100,000 to 200,000 yuan, and 35 percent for annual profits over 200,000 yuan. This expressed the principle of differential treatment, and was more flexible and rational than a rigid tax rate.

3. While Yiyang City stipulated that during original enterprise contract periods, the income taxes that should be paid according to the separation of taxes from profits plan that were in excess of original contract bases would be cut by one-half, the "Plan" did not contain this provision. Yiyang City also stipulated that enterprises that experienced real difficulties in paying their taxes could be granted appropriate tax reductions and exemptions with the approval of the tax management system.

4. Considering enterprise investment loan balances for the end of 1987 as old loans, Yiyang City stipulated that during original contract periods, 60 percent of loan repayments would come from pre(income)tax profits and 40 percent from enterprise aftertax retained profits. As the "Plan" stipulated that no more than 50 percent of old loan repayments would come from pretax profits, Yiyang City's stipulation was obviously slightly more flexible. In order to enhance enterprise loan repayment

capability, Yiyang City provided temporary exemptions from collection of energy, transportation, and extrabudgetary regulatory funds from enterprises that repaid special loans out of aftertax profits, and allowed a faster rate of depreciation upon approval for fixed assets established with special loans, for key enterprises approved for upgrading and long-term projects with large investments, while the "Plan" did not contain these provisions.

Yiyang City's flexible steps in implementing the joint "Plan" of the Ministry of Finance and the State Restructuring of the Economic System Commission, apparently reduced state revenue somewhat. While the "Plan" stipulated that Yiyang City's 25 budgeted state-owned industrial enterprises that were practicing the separation of taxes from profits should have paid income taxes to the state of 6.61 million yuan in 1988 and 7.35 million yuan in 1989, which payments were 1.06 million yuan and 1.03 million yuan, respectively, more than Yiyang city's stipulation, it was precisely these flexible steps that aroused the initiative of enterprises and their staff members and workers to take part in the separation of taxes from profits reform, promoted production developments and thus, achieved the dual results of ensuring steady increases in both state revenue and enterprise retained profits. In 1988, Yiyang City's 25 pilot project enterprises in the separation of taxes from profits realized profits of 26.276 million yuan, or 156.26 percent more than was planned and an increase of 25.1 percent over 1987, paid the state income taxes of 5.553 million yuan, or 28.2 percent more than in 1987, retained profits of 13.601 million yuan, or an increase of 171.2 percent and, excluding aftertax loan repayments of 6.654 million yuan, actually retained profits of 6.947 million yuan, or an increase of 38.4 percent. In 1989, due to factors such as the market slump, enterprise efficiency generally dropped, and Yiyang City's 25 pilot project enterprises realized 9.64 percent less profits than in 1988. Even under such unfavorable conditions, the large decrease in pretax loan repayments enabled these enterprises to pay 11.9 percent more in income taxes to the state and retain 10.87 percent more in profits than in 1988, and achieve simultaneous increases in state revenue and enterprise retained profits.

It is thus obvious that during the transition from contract management to the separation of taxes from profits, we must pay attention to at least the following points in guiding ideology:

1. We must overcome the tendency to try to achieve quick success and instant results. We should make a completely new start based on full plans for putting theory into practice, overcome the impetuous tendency to move from the first to the second phase of the substitution of taxes for profits too quickly, ensure that the reform transition to the separation of taxes from profits proceeds systematically, avoid impractical shortcuts, and refrain from oversimplifying complex reforms.

2. We must not overemphasize one task at the expense of others. The reform transition to the separation of taxes from profits is not a matter of simply lowering income taxes, eliminating regulatory taxes, and switching loan repayment from pretax to aftertax, but is rather a very complex kind of systems engineering reform in readjusting the profit distribution relations between the state and enterprises. That is, as it involves the profit relations between both the state and enterprises and Central and local governments, many sectors, such as finance, taxation, all departments in charge of enterprises, and banking, as well as reform of many systems, such as business, finance, tax collection, banking, and pricing, we must make overall plans and take all factors into consideration, instead of attacking problems individually.

3. We must guard against the mistake of "indiscriminate application." During the transition from contract management to the separation of taxes from profits, the Central government must make only certain qualitative stipulations on reform orientation, while allowing all areas to take certain flexible steps according to their actual conditions in its quantitative stipulations, substitute a "flexible" transition for a "rigid" one, and use nonuniform means to achieve the goal of standardization. Only these methods will contribute to a smooth reform transition to the separation of taxes from profits.

Chongqing Achieves Good Results

91CE0696B Beijing JINGJI CANKAO BAO in Chinese
9 Jul 91 p 1

[Article by Chai Yan (2693 4282): "Reform Pilot Projects in the Separation of Taxes From Profits Have Achieved the Initial Successes of Bringing Taxation Flexibility Into Full Play and Stabilizing Profit Distribution Relations"]

[Text] After the city of Chongqing pioneered pilot projects in the separation of taxes from profits in 1988, 27 Chinese provinces and cities (including plan-list cities) had selected certain areas, industries, and enterprises to conduct such pilot projects by the end of May 1991. Almost 1,900 state-owned enterprises are participating in these pilot projects, of which 1,377 in 13 provinces and cities have been approved by the Ministry of Finance.

"The separation of taxes from profits, and aftertax loan repayment and contracting," means that state-owned enterprises first pay income taxes to the state out of their realized profits according to the provisions of the tax laws, that various forms of contracting are then used to distribute after (income) tax profits among the state and enterprises, and that enterprises finally repay fixed assets investment loans out of their retained profits.

These years of pilot project practice show that the separation of taxes from profits has had the following initial impact:

—It has brought the flexible regulatory role of taxation into full play, and begun to enable the state and enterprises to share both the profits and the risks. As income taxes are calculated and collected according to graduated rates for enterprises that practice the separation of taxes from profits, the amount of income taxes paid depends on the amount of profits earned, being either more, less, or none depending on whether more, less, or no profits are earned, which brings the flexibility of income taxes into full play, and makes them better suited to changing objective economic conditions.

—It has tended to rationalize and stabilize the profit distribution relations between the state and enterprises. Moreover, the income tax flexibility in the separation of taxes from profits has stabilized the distribution relations of payments to the state, retained profits, and loan repayments in the midst of sharp fluctuations in objective economic conditions.

—Its conversion of the loan repayment mechanism has properly curbed investment increases, without having a negative impact on enterprise development stamina. In aftertax loan repayment, loans are repaid out of enterprise retained profits, which makes enterprises give more consideration to their own capabilities and investment efficiency.

—It has speeded up enterprise loan repayment, and taken a step toward establishing a good cycle of enterprise investment. In aftertax loan repayment, enterprises realize that the slower they repay their loans, the heavier their burdens become, which enhances their sense of loan repayment responsibility.

—In order to continue to bring the driving role of the current contract system into full play, the separation of taxes from profits reform includes the rational parts of the contract system in aftertax contracting. Its major practical impact is on enterprises with better economic efficiency and increasing realized profits. That is, as they contract payments to the state of aftertax profits, they can pay increasingly larger amounts of taxes and profits to the state, while retaining increasingly larger amounts of profits.

Shareholding System

91CE0696C Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 25, 24 Jun 91 p 10

[Article by Mo Wen (5459 2429): "China Should Set Up a Shareholding System Based on the Separation of Taxes From Profits"]

[Text] While the general objectives of China's enterprise reform are to separate government administration from business management and management from ownership, and give enterprises more management decisionmaking power, the sole responsibility for their profits or losses,

and self-development and restraint mechanisms, conflicting views still exist about particular reform models and approaches.

One view is that as the current contract system is suited to China's national conditions, the future enterprise reform orientation should be to continue to adhere to the contract model, which ought to be further perfected and improved through the following reforms: 1) enterprise decisionmaking power over production operations should be further expanded; 2) shortsighted enterprise actions should be prevented and eliminated; 3) contract bases should be set rationally, in order to avoid drawbacks, such as inequalities among enterprises and unfair competition; 4) management within enterprises should be enhanced, so as to eliminate the phenomenon of "substituting contracting for improved management"; 5) perfection of the contract system should be combined with readjustment of enterprise organizational structures, in order to encourage enterprise contracting, mergers, leasing, and group development.

An alternate view is that the current system of enterprise payment of profits to the state and contracting contains major defects, so should be replaced by the separation of taxes from profits, and aftertax loan repayment and contracting. Those who hold this view note the following things: As enterprise payment of profits to the state involves the relations between managers and owners, while enterprise payment of taxes to the state is an obligation that should be fulfilled, the two matters must be separated. Moreover, as enterprises must pay taxes whether they make profits or not, pretax loan repayment is actually a form of state subsidization of enterprises, which does not contribute to improvement of enterprise fund use efficiency. The separation of taxes from profits, and aftertax loan repayment and contracting, is based on the following suppositions: 1) The formation of a rational pricing system. Otherwise, it would be impossible to set rational income tax rates that would be uniform throughout China. Moreover, there would be no substantive difference between the application of different tax rates to various enterprises and the one-on-one negotiations in the contract system. 2) The formation of new enterprise upgrading and development fund sources. As enterprise upgrading in recent years has relied to a large degree on the preferential policy of pretax loan repayment, conversion to aftertax loan repayment would necessitate a search for new investment channels. 3) The removal of irrational aftertax burdens on enterprises. Except for paying taxes to the state and property use fees to the state-owned assets management sector, enterprises should not in principle be subject to other social burdens.

While both of these views have certain grounds, neither of them would be able to easily achieve the above-stated general reform objectives. I think that a third approach should be taken, i.e., that China should set up a shareholding system based on the separation of taxes from profits, for the following reasons:

- The diversification of shareholding units, in which shares would no longer be owned by particular independent departments, would keep former responsible government departments from being able to interfere directly in enterprise administration, which would resolve the issue of government administration not being separated from business management.
- The election at shareholder meetings of boards of directors, which would appoint managers to be in charge of routine activities, would separate management from ownership.
- These two things would give enterprises more management decisionmaking power as follows:
- As a more standard system of the separation of taxes from profits would be used to handle the profit distribution relations between the state and enterprises, after paying property use fees to the state, enterprises could use the rest of their profits for upgrading and development on their own initiative.
- As external conditions would be equalized, diversified shareholding enterprises with limited corporate responsibility would be able to be responsible for their own risks.

PROVINCIAL

Discussion of Capital Sources for Pudong Development

91CE0691A Hong Kong KUANG-CHIAO CHING
[WIDE ANGLE] in Chinese No 7, 16 Jul 91 pp 50-51

[Article by Mo Li: "China's Largest Trans-Century Project—Where Will the 40-Billion-Yuan Funds for Pudong Come From?"]

[Text] With the Completion of the Nanpu Bridge, the Development of Pudong Enters the Substantive Stage

The Nanpu Bridge, which crosses the Huangpu River to link the two sides, east and west, of Shanghai, was completed on 20 June 1991, and is expected to be operational by year end.

40-Billion-Yuan Funds for Infrastructure Construction

According to Shanghai Municipality's Eighth Five-Year Plan, in the development work for the Pudong New Zone, there are ten items of large-scale infrastructure. Besides the Nanpu Bridge, work will be started in the latter half of 1991 on the projects for the second bridge across the Huangpu River—the Yangpu Bridge, the Pudong portion of the inner-ring line connecting the two bridges, and the four shoreline-wise berths in the first-phase project for the Waigaoqiao docking areas. The widening of Yanggao Road—the main north-south highway in the Pudong New Zone—will be completed in 1993. Also to be completed and become operational in

the mid-90s are such projects under way as the second-phase project for the waterworks, the gasworks, the first-phase project for the Waigaoqiao power plant, the Pudong portion of the sewage-pooling project, and the 100,000 switch telephone project. Furthermore, the plan also involves such large projects as a second international airport, a second subway line, a third tunnel under the Huangpu river, and the Pudong portion of the outer-ring line. According to preliminary estimates of the Pudong branch of the Construction Bank, for the development of the Pudong New Zone, the projects for infrastructure alone will need construction funds of 40 billion yuan RMB. Shanghai is to raise, by itself, most of the huge amount of funds.

Where Will the Money Come From?

Just in the initial stage of development, Pudong will not be able to attract, in the near term, a large amount of international capital. At such a time, how to raise the funds equal to the scale of the development has become the focus of attention of all sides.

China's Largest Trans-Century Project

Between May and June of 1990 when China's largest trans-century project of the Pudong development was beginning, besides the State Council and the Shanghai municipal government which promulgated several policies, laws and regulations, the financial industry took quick actions, going one step ahead other industries. "Finances go first" to provide necessary "supplies" for various projects. Ten-odd financial institutions headed by China's four specialized banks, six foreign-funded banks, and three Chinese-foreign joint-venture financial institutions established branch banks or branch companies in Pudong over time. According to a source, during the Eighth Five-Year Plan period of 1991-95, the various specialized banks will raise 10 billion yuan in funds for Pudong. With regard to the TV tower of the Lujiazui area of Pudong, the Pudong branches of the Construction Bank and the Industrial and Commercial Bank have taken the lead in forming a syndicate to provide 150 million yuan RMB and \$10 million in construction funds; and the Construction Bank is also assuming the role of leading agent bank, together with the Industrial and Commercial Bank and the Communications Bank, to provide 350 million yuan in loans for the construction of the Yangpu Bridge. The Bank of China is, together with five banks from France, Japan and Hong Kong, jointly funding the construction of the International Finance Building.

As the Yangtze delta region sees that the development of Pudong will bring opportunities for the development of many cities of the region, some financial institutions are also taking actions. The Jiangsu and Zhejiang branches of the Construction Bank are even more active. They are enhancing financial management of funds to guarantee the funds for and the progress of such projects of concern as the Shanghai-Hangzhou-Ningbo expressway and the Qinshan Nuclear Power Station. Besides, that region's

Construction Bank system is preparing to organize syndicated loans for supporting key projects.

The Shanghai municipal government is already using the real estate industry based on compensated land use as an effective means of raising construction funds for the Pudong New Zone. According to the plan, pioneering development of the Lujiazui finance trade zone, the Jinqiao export processing zone, and the Waigaoqiao duty-free zone, three newly formed development corporations have acquired, from the municipal land bureau, the leases for land use. The Aerospace Ministry is also interested in getting a lease for a small area in Pudong for developing high-tech industries. Because some street names, in the middle of the small Lujiazui zone, such as Zhangyang and Wendeng come from Shandong, Shandong Province intends to "develop the relevant area by itself." Bloc land lease will accumulate funds for the zone, with the gradual development of the Pudong real estate industry. According to statistics, various institutions will invest in Pudong for the construction of over 20 finance, trade or comprehensive-function buildings, in addition to over 2,000 high-grade apartments, 20 million square meters of floor space of housing, etc.

Besides Shanghai's business, the investors also include the Yu'an Corporation of Anhui, China Daily, etc.

The real estate development companies under the various banks are even more active in going deep into Pudong to select development projects. The total area for the preliminarily negotiated projects is already over 300,000 square meters. Furthermore, the Construction Bank of Jiangsu Province is proposing that the three construction banks of Jiangsu, Zhejiang and Shanghai jointly organize a real estate development corporation (group) of a holding-company nature. It seems that such action will bring along other industries in their development in Pudong.

Developing Securities Investment in Pudong Has Become the Common Understanding of the Parties Concerned.

Up to now, the Pudong branch of the Construction Bank has already sold 5 million yuan in short-term fund-raising bonds for the large and medium-sized enterprises of the Pudong New Zone; and have designed the issuance plans for "stock-transferable enterprise bonds" and "enterprise bonds containing share-subscription right for new stocks" for two development corporations in Jinqiao and Waigaoqiao. This plan is still to be implemented. But, developing securities investment in Pudong is the common understanding of the people concerned. The establishment of a "development fund for the Pudong New Zone" is also inevitable.

On 21-23 June 1991, the Investment Association of China, together with the institutions, experts and scholars concerned of the four regions of Beijing, Shanghai, Jiangsu and Zhejiang, held, at Shanghai, a joint discussion on the issue of "developing Pudong and investing in the Yangtze Delta," and submitted, to the

center and the Shanghai government, recommendations and reports on ways, means, methods and corresponding policies regarding investment for the development, to expedite the completion of Pudong's infrastructure and attract even more foreign capital. With joint efforts of the center and Shanghai, Pudong is speeding up its development. This move will accelerate and push development of the Yangtze river valley and the whole country.

Fujian Governor Optimistic About Future Development

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[Article by Xu Zhuosong: "Full of Confidence in the Development of the Next Decade—a Conversation With Fujian Governor Jia Qinglin"]

[Text] As one of the earliest provinces to open to the outside world, Fujian has made great progress over the last 12 years. Within the framework of the Eighth Five-Year Plan and Ten-Year Plan, how will Fujian join the ranks of economically developed provinces? Fujian Governor Jia Qinglin expressed his views in an interview with journalists.

The Major Objectives

Governor Jia was a senior engineer and held the position of General Manager of the Chinese Import and Export Company of Machinery Equipment and Head of the Taiyuan Heavy-Duty Machinery Plant. In 1985 he was transferred to Fujian and was a member of the provincial Standing Committee of the People's Congress and Deputy Secretary of the Provincial Party Committee. Last year he was acting governor and in April this year he was elected governor. Although he has not been governor for long, he has well thought out plans for Fujian and was articulate in responding to questions. Governor Jia put the objectives of the next decade into one sentence: quadrupling output five years ahead of time and achieving a comfortable living standard three years ahead of time.

The concrete targets based on this objective are that GNP will reach 35.4 billion yuan in 1995, quadrupling that of 1980, and will reach 53 billion by the year 2000, an annual average increase of 8.5 percent based on 1980 constant prices. GNP per capita will reach \$800 by 1997 and \$1,000 by the year 2000. Gross industrial output value will reach 65 billion yuan by 1995 and exceed 100 billion yuan by the year 2000, an annual increase of 10 percent. Gross agricultural output value will be 12 billion yuan by 1995, and 14.5 billion by the year 2000, an annual increase of 4.5 percent. Exports will exceed \$4 billion by 1995 and \$8 billion by the year 2000, and account for an annual increase of one percentage point on average to GNP. Fiscal revenue will amount to 8.5-9 billion yuan in 1995 and 14.5 billion in the year 2000.

The average disposable income of urban residents will amount to 2,600 yuan by 1995 and 4,500 by the year 2000. The per capita net income of peasants will reach 1,350 yuan by 1995 and 2,600 yuan by year 2000. Deducting price increases, the average real income of urban residents will increase 3-5 percent on an annual basis.

Basic Ideas

Governor Jia said that to achieve the above-mentioned targets set in accordance with Fujian's specific circumstances, the focus of the strategy of economic and social development will be on the overall improvement of efficiency with a view to strengthening the basis, deepening reform, expanding external markets, rejuvenating science and education, and optimizing the economic structure.

Strengthening the basis means concentrating a certain amount of financial resources, materials and labor to practically strengthen the construction of agriculture, infrastructure, and basic industries. Efforts will be made to produce 10 billion kilograms of grain by 1995 and 11 billion kilograms by the year 2000, expand the area of fruit trees to 10 million mu and aquatic breeding to 2 million mu, and attain a forest cover rate of 53 percent and attain 60 percent by the year 2000. In the next 10 years, investment in fixed assets of the whole society will reach 200 billion yuan. Key construction includes ten major transportation projects (one expressway, three railways, three airports, and three ports), ten major projects in postal communications, seven major energy projects, and another ten major projects in raw materials and other industries.

Furthering reform means to firmly and continuously push for comprehensive reform experiments, to explore courageously, and to speed up the pace of reforms. During the period of the Eighth Five-Year Plan, in conjunction with the establishment of a new system of planned commodity economy and an economic functional mechanism that are not only consistent with the state's macroeconomic regulations and control but also externally-oriented, emphasis should be placed on strengthening macroeconomic regulations and control and on the cultivation of a market system. There should also be breakthroughs in the development of financial institutions, commercialization of housing and real estate development.

To expand external markets is to firmly and continuously expand the scope of opening to the outside world and walk onto the international economic arena with big strides. The consistency and stability of the open policy must be maintained. At the same time, efforts should be made to seek new breakthroughs in attracting foreign capital, to mobilize resources to launch large scale foreign-funded projects, to establish tax-exempted processing zones and tax-exempted markets for means of production, to establish Taiwanese-funded and foreign-funded banks, to lead foreign businessmen to develop

and manage large pieces of land and to build ports, berths, power stations, expressways in the form of sole foreign investment or joint ventures, and to rigorously expand the externally oriented economic development.

To rejuvenate science and education is to adhere to the principal of using wisdom to obtain success and to rely on scientific and technical education and raising the quality of labor to promote economic and social development. Continue to implement the "Spark Plan," "torch plan," "liaoyuan" and "bumper harvest plan," as well as other plans to accelerate the construction of the Fuzhou-Xiamen high-tech park, and the "science and technology corridor" along Quanzhou, Jinjiang, and Shisi. Continue to advocate that the whole society invest in education, that resources be assembled and used for education, and that education be funded by overseas Chinese.

To optimize the economic structure is to rationally allocate factors of production by following the trend of international markets and relying on the support of domestic markets, to coordinate regional economic development, to actively improve the industrial mix, and to gradually form a high-quality, highly efficient, externally-oriented, and light economic structure that has Fujian's own characteristics.

The Necessity and Feasibility

Governor Jia believes that it is necessary and feasible to implement the Eighth Five-Year Plan and Ten-Year Plan. He said that first of all, Fujian's economic development was once very slow due to the problem of the Taiwan Straits and the influence of the cultural revolution. The so called "ten-year war preparation followed by ten-year turbulence" caused Fujian's GNP and per capita income to be 22nd place in China. Second, after almost 12 years of reform and opening, the above two indicators have moved up to 12th and 11th place respectively. But due to a weak basis, the indicators are still below the national average. Third, the central government has time and again demanded that Fujian speed up its development and has endorsed many special policies and flexible measures to turn Fujian into a comprehensive experiment zone of reform and opening. Therefore, it is necessary for Fujian to achieve these objectives.

As for feasibility, there is a scientific basis for quadrupling output five years ahead of schedule. Over the last 12 years, Fujian's GNP has been growing at an annual average rate of 10.5 percent. It should not be difficult to have a growth rate of 8.5 percent in the next five years. In terms of the overall plan, industry, agriculture and infrastructure were all designed with that growth target in mind. The industrial growth rate will be 10 percent, agriculture 1.5 percent, and electric power 10 percent. The supply of energy is guaranteed. With regard to transportation, the ten key construction projects will raise the net railway freight from 40,000 tons to 50,000 tons for every 100 million yuan's worth of GNP. In addition, the constructions of Mawei, Meizhou, Dongdu

Ports and other small ports along the coast will increase the handling capacity of the ports from a little over 60,000 tons to 80,000-90,000 tons for every 100 million yuan's worth of GNP.

As for "achieving a comfortable living standard three years ahead of schedule," is an annual per capita GNP of \$800. This is not a problem for urban areas, the key is in large rural areas. Fujian has a rural population of 25 million at present and will have 27 million by 1995. It should not be difficult to reach a conclusion when Fujian's existing resources are broken down for analysis. First of all, the province currently has 18.5 million mu of cultivated land. Grain output will reach 20 billion jin by 1995 and 22 billion jin by the end of the century. This item alone should guarantee a comfortable living standard for 5 million people. Second, Fujian has rich aquatic resources. The existing breeding area is 840,000 mu and will expand to 1 million mu in the next five years. This item could enable 2 million people to have a comfortable life. Third, with respect to the fruit industry, the province's orchards will increase from 6 million mu to 10 million mu. This resource could guarantee a comfortable living standard for 7 million people. Fourth, Fujian's town and township enterprises are developing rapidly, employ 2.8 million people at present, and 3.5 million by 1995. Based on a ratio of 1:2, this could bring 7 million people into a comfortable life. In addition, agriculture and sideline industry, such as transportation and construction, will also bring thousands of people into a comfortable life.

It can be seen, therefore, that Fujian's Eighth Five-Year Plan and Ten-Year Plan are not only necessary but also feasible. With efforts, these plans are achievable and may even leave some margin.

The Advantages of Fujian

What advantages does Fujian have as the basic assurance for achieving these objectives? Governor Jia summarized the advantages into four aspects.

First, the central government has granted Fujian many preferential policies for opening to the outside. As early as 1979, authorized by the central government, Fujian and Guangdong became the first provinces to open up. Afterwards, with the support of the central government, the province gradually formed a multi-layer pattern for opening to the outside. Meanwhile, the State Council decided to treat Fujian, Guangdong and Hainan as comprehensive experiment zones in the country for reform and opening and approved the establishment of Taiwanese investment zones in Xiamen and Fuzhou. These advantages became one of the most favorable conditions for Fujian to speed up its economic construction and opening to the outside.

Second, geographic advantages. Fujian is positioned along the Chinese southeast coast and is close to Taiwan, Hong Kong and Macao. It has an endowed geographical advantage to develop economic and trade exchanges with Taiwan, Hong Kong, Macao, and the rest of the

world. Because of this advantage, native Fujianese can be found in Taiwan, Hong Kong, Macao and all over the world and they are characterized by the "three eights": 8 million overseas Fujian natives, 800,000 Hong Kong residents are from Fujian, and 80 percent of Taiwan residents came from Fujian. The concerns and support of these native Fujianese for their hometown is also Fujian's advantage.

Third, there has been great improvement in the investment environment. Over the last 12 years of reform and opening, the province has spent 12.3 billion yuan on capital constructions in energy, transportation, raw materials. A group of important projects such as airports, berths, power stations, highways, railways, communications, and raw materials have been newly constructed, expanded, and transformed. The newly added generator capacity comes close to 1.5 million kilowatts, the coal mining capacity has reached over 1 million tons, and cement production 1.4 million tons. Six berths of over 10,000 tonnage have been constructed with an increased handling capacity of more than 3.6 million tons. These infrastructures and basic industries provide the necessary investment environment.

Fourth, an externally oriented economy is basically in place. Over the last 12 years, the province's accumulated exports amounted to \$9.375 billion, 7.6 times the total of the previous 28 years. In accumulation, 4,001 foreign investment contracts have been signed, and used a total of \$4.025 billion. There are 1,988 foreign-funded enterprises in operation. Such indicators as the amount of foreign direct investment used, the number of foreign-funded enterprises, output value, export earnings, and tax returns are all ranked second in the country, next to Guangdong. Fujian is ranked first for the share of foreign-funded enterprises' output in total industrial output.

Finally, Governor Jia mentioned that Fujian is now facing three major basic tasks.

First is to raise funds. During Fujian's Eighth Five-Year Plan, it is estimated that investment in fixed assets will require 75 billion yuan. A total of 200 billion yuan will be needed for the Ten-Year Plan. A "three-direction" approach will be adopted to fulfill this target, namely, upward, downward, and outward. Upward means to get funds from the state, downward from the masses, through the issuance of bonds and stocks, and outward from overseas, which is also the most important part. It includes two avenues: direct absorption of foreign capital, setting up foreign-funded enterprises, and direct foreign borrowing.

Second is to explore markets. Fujian has to face two markets: overseas and domestic markets. In recent years Fujian has maintained economic development despite a weak domestic market. Reliance on overseas market is one major reason. A certain growth rate of GNP is assured by the leading force of export.

Third is to adjust the industrial mix. One of the most important points is to expand the scope of opening, introduce advanced technologies, transform traditional industries, and vigorously develop an externally oriented economy to develop the industrial mix toward being technically advanced and export oriented.

FINANCE, BANKING

Current Status, Problems With Shanghai Stock Market

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[Article by Jiang Tiezhu (5592 6993 2691): "Shanghai's Experiment With Shareholding System—Current Status and Problems"]

[Text] I. Shanghai's Pilot Project in Shareholding and the Stock Market

Shanghai's pilot project in the shareholding system began in the second half of 1984. The first shareholding enterprise in Shanghai was the Feiyue Audio Company, which was founded in November 1984 and began issuing shares in January 1985. Thus far there are 11 sizeable shareholding companies in Shanghai, summarized by trade or industry as follows: 1) Industry, four: Shanghai Zhenkong Electronic Parts Shareholding Company Ltd., with a total capital stock of 200 million yuan; Shanghai Feiyue Shareholding Co. Ltd., founded September 1987, total capital stock, 28 million yuan; Shanghai Feiyue Audio Co., total capital stock, 1.65 million yuan; and Shanghai Aishi Electronic Equipment Co., founded January 1985, total capital stock, 400,000 yuan. 2) Commercial services, four: Shanghai Yuyuan Shopping Center Shareholding Co., Ltd., founded December 1987, total capital stock, 6.50 million yuan; Shanghai New World Shopping Center, founded September 1988, total capital stock, 2.1 million yuan; Shanghai Yanzhong Industrial Co. Ltd., founded January 1985, total capital stock, 10 million yuan; Shanghai Shenhua Electrical Engineering Shareholding Joint Co., founded March 1987, capital stock, 5 million yuan. 3) Banking, two: Communications Bank, Shanghai branch, founded April 1987, capital stock, 623 million yuan; Shanghai International Securities Co., founded July 1988, capital stock, 11 million yuan. 4) Real estate, one: Shanghai Xingye Shareholding Co. Ltd., founded August 1988, capital stock 7 million yuan.

The 11 shareholding companies mentioned above have a combined capital stock of 887 million yuan, including 663 million yuan worth of shares owned by the state, or 74.77 percent of the total, 158 million yuan owned by legal persons, or 17.76 percent, and 66 million yuan owned by individuals, or 7.48 percent.

The shares of seven companies, with a total capital stock of 236 million yuan, are being traded on the stock exchange at present. Of this, the state owns 157 million

yuan, or 66.3 percent; legal persons own 16 million yuan, or 6.9 percent, and individuals own 63 million yuan, or 26.8 percent. Currently, though, only individually owned shares are being traded on the stock market. In the short run, the prices of the shares of these seven companies will remain strong, with most changing hands at three times their face value. The shares of the Yuyuan Shopping Center Shareholding Company are being traded at five times their face value.

Let us now take a look at the stock market, which has enjoyed fairly rapid growth and has reached a substantial scale since 1986. The Jingan Securities Department (later renamed Shanyin Securities Co.) of the Trust and Investment Company under the Shanghai Commerce and Industry Bank became the first concern in Shanghai to specialize in the issue and trading of shares when it began trading shares over the counter in September 1980. Since then three other securities companies have been set up, namely the Shanghai Haitong Securities Co., the Shanghai Wanguo Securities Company, and the Shanghai Zhenxing Securities Co. So far there are 25 companies in Shanghai that handle the securities business with over 50 trading points altogether. In view of the growth of the securities business, the Shanghai Stock Exchange was founded on 26 November 1990, which currently has 25 corporate legal persons as members. Of the first 30 securities traded on the market, five were treasury bills, eight were enterprise bonds, nine were financial bonds, and eight were shares, (including one issued by a company in Zhejiang).

II. Problems in the Shareholding Experiment and Solutions:

Based on Shanghai's experiment with the shareholding system, we think shareholding offers these minimal advantages:

A) When one raises capital by issuing shares, one does not have to pay principal, only dividends. For the enterprise, it is the least expensive way to raise capital and secure low-cost funds long term.

B) Meet the demand of investors at home and abroad and open up a new avenue for fund-raising. All investors want to ensure the safety of their investment and earn high yields, at the same time being able to unload their stocks easily if necessary. And share ownership precisely satisfies these requirements on the part of the investor. Hence issuing shares is more attractive to enterprises as a means of absorbing overseas funds than putting together a Sino-foreign joint venture.

C) Lessen the burden on the state in investment and balancing foreign exchange. By issuing shares to raise funds, enterprises are in effect easing the investment burden on the treasury, allowing the latter to use what limited funds it has on projects relating to public facilities and the infrastructure. And when an enterprise issues shares to raise foreign capital, it has to balance its own foreign exchange accounts, which therefore does not become a responsibility for the state.

D) Expedite the separation of management right and asset investment right from administrative management right and reduce administrative interference by the government in enterprise operations.

However, the pilot project in shareholding has run into numerous problems that await further study and resolution. The main problems are:

First, there have been endless arguments about the shareholding system in all quarters. The absence of a consensus has prevented the pilot project from going full steam ahead. Some people are firmly opposed to the shareholding system, arguing that it is a concrete manifestation of economic liberalization and that it is capitalism. Some people are full of misgivings and hesitate every step of the way. Given the absence of a consensus on what basically constitutes a shareholding system, the pilot project, unlike the contract system, has neither commanded the attention of all quarters nor enjoyed support across the board. It has just been limping along.

Second, while the enterprise system is being modernized, enterprise operating mechanisms have remained unchanged. The resultant contradiction and conflicts have prevented the experiment from proceeding normally. The city has yet to introduce a number of measures relating to the shareholding system. Hence the confusion in the management of the 11 shareholding companies now in existence in the city. For instance, income taxes are being collected at 55 percent, 35 percent, and 50.25 percent and the excess progressive tax is being levied at eight levels. When it comes to loan repayment, pre-tax repayment coexists with after-tax repayment. There are also multiple methods of giving out dividends. In addition, no uniform laws and regulations exist in financial accounting, wages, and industry and commerce registration.

Third, there is a dearth of commodities on the stock market available for trading, with a potential for soaring prices and unchecked speculation.

Judging from the initial results of Shanghai's experiment with the shareholding system, we think the scale of the experiment is still too small and should be expanded. First of all, though, we must resolve the following issues:

First, unify our thinking and take steps to eliminate or minimize the shortcomings of the shareholding system. One, firmly maintain public ownership as the dominant system, that is, the state and the public legal person should own the bulk of the shares to guard against a drift into capitalism. Two, strict rules should be made to regulate the individual ownership of shares. That way we can prevent bipolarization and excessive income gaps. Three, improve the management of the stock market and reduce stock speculation to a minimum.

Second, implement the resolution of the Seventh Plenum of the 13th CPC Central Committee and the spirit of the national conference on economic structural reform to

make the experiment in shareholding even better. Measures for carrying out the pilot project should be worked out as soon as possible along with various rules and regulations. Upon approval by the appropriate central agencies, they should be promulgated and implemented by the local government.

Third, it is requested that the central government confers upon Shanghai a measure of authority to experiment, including the power to allow a number of enterprises to participate in the pilot project and authorize others to issue shares to the public in the near future.

Problems Collecting Personal Regulatory Taxes

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[By Ch'eng Hsun (4453 6598): "Why Is the Mainland Unable To Collect Regulatory Taxes on Personal Income?"]

[Text] A Tax Revenue Concept Is Lacking

When it comes to taxes, there are significant differences between Hong Kong and the mainland. When, each year in early March, Hong Kong's Office of Finance presents to the Legislative Council the government's new annual budget bill, people in Hong Kong are all eagerly waiting to see it. However, when China's minister of finance presents the new annual budget plan to the National People's Congress, the average person does not know what it is all about and most people do not even want to know. This indifference on the part of mainlanders comes as a shock to Hong Kong people. This is not, in fact, an indication of the latter's interest in politics and disregard by mainlanders. It is merely Hong Kong people's concern about whether their taxes and expenses will be increased this year. And the mainlanders? Most of them think that paying taxes is for the "big shots" or for those in charge of small collectives or for a small number of households or newly rich households and that it has nothing to do with them. Up to now, mainlanders have had extremely vague notions about taxes.

Is a Regulatory Tax on Personal Income Essential?

Prior to the eighties, people did not have the least notion about taxes. Following reform and opening to the outside world, the only tax imposed was a progressive tax on income of 800 yuan or more of foreigners working for "three kinds of partially or wholly foreign-owned enterprises" as well as for "three forms of import processing and compensation trade" enterprises. No taxes were imposed on local employees with high incomes or on others with high incomes. It was just in the last three or four years that they began to impose regulatory taxes on the personal income of China's residents. It was stipulated that those earning 400 yuan or more a month in income and interest were subject to regulatory tax on their personal income. Although rules and regulations on the imposition of a personal income tax were announced

in 1980 and in 1986, enforcement has been lax and that source of taxes has eroded away.

Be that as it may, there is one type of tax that the government of China has that it has never had before, i.e., a tax on royalties for copyright works. It is stipulated that that portion of payment for works published by individual persons (including translations and other works) which exceeds 800 yuan is subject to a 20 percent tax. The thinking is that, irrespective of whether a work was written in a month's time or over a lifetime before it is published, the income is calculated on the basis of what is received in one month. Of course, this is illogical. I remember several years ago in Beijing, a number of well-known intellectuals held an informal discussion meeting where they publicly appealed to the Finance Ministry to cancel it. When an intellectual produces a book, he can very easily spend eight or 10 years on it, even a lifetime. Reimbursements are extraordinarily low. (The system of reimbursements on the mainland are not the same as in Hong Kong. A writer is generally paid a one-time fee at the rate of 10-15 yuan for each 1,000 characters. In Hong Kong, it is about 10 percent of overall sales, with the payment being made at specified times.) How can they use one month's income to impose a tax? Nevertheless, it is, from beginning to end, based on ability to pay. As of now, it is perhaps the mainland's steadiest and most reliable source of income tax on its domestic residents.

With respect to other such regulatory taxes on personal income, it is said that certain prominent "zou xue" [6382 4494] actors and artists in the north pay something however little it might be. If they do not, they face adverse public opinion. There is no lack of other high-income people, but those who voluntarily pay are perhaps few and far between. Beginning in 1989, having discovered huge leaks in this area, the government started a campaign to declare taxes using domestic newspaper propaganda and certain intellectuals such as university professors whose income would be less than others. When it first started, everyone seemed enthusiastic. Many people made declarations. However, later things gradually cooled off. Reportedly, there were three reasons. First, in the beginning everyone made honest declarations. But certain "courageous" elements did not. The result was that persons who did and paid their taxes later discovered that those who refused to make a declaration had larger incomes than those who did. It was felt that, once again, it was the honest person who was left holding the bag. Thereafter, having the example, they emulated it. Because awards and penalties were not clearly demarcated, those making declarations naturally lessened. The second reason was because income from wages which are on record and which can be confirmed are low, whereas nonwage income, which can be considerable, cannot be confirmed. There is no way to check on the facts of the situation. Third, the period during which a declaration could be made was long, once each year. Much income can be removed from the country by then and not be traced. The memories of those declaring their

taxes can also have faded by then, with the result that they become "terribly muddled." Of course, the authorities do not make detailed inquiries, nor can they. Naturally, during the national economic retrenchment of the last two years and with the decline in income of all trades and professions, tax revenue has been reduced. Even the notion of tax revenue has seen a natural abatement. Given this situation, regulatory taxes on personal income have become even more insignificant, whether in terms of absolute amounts or in terms of their ratio to overall income from tax revenue.

The Tax System Is Unsound, Casual, and Slipshod

Although Hong Kong's tax system is casual and many people evade their taxes, the government is taking measures to cope with them. However, in comparison, China's is more casual. It could not be made any more casual. Its implementation lacks fairness, and it is irrational. Taxpayers are resentful. If they are unable to pay, they do not. If they do not have to declare, they do not.

First the tax base is rigid. It neither increases nor declines. In Hong Kong, an exempted amount of personal income and interest taxes which residents do not pay is annually adjusted according to inflation. Generally, the amount is raised, but it still does not satisfy people. However, on the mainland there is amazing stability. Even though in 1989 the inflation rate was more than 20 percent, there was still the one exempted amount, and with the big drop in 1990, the exempted amount did not decline. Taxpayers, of course, think this is irrational.

Second, there is also a type of tax exemption for the size of family that is being supported. This is fair and sensible. It is, in effect, a basic principle of tax systems. However, the mainland tax exemption is the same no matter how large the family, whether or not there is a wife, a mother and father, or children to support. People with higher incomes have the same exemption as people with large families. This is naturally unfair.

Third, if the starting rate for a progressive income tax is high and the intention is to increase revenue, revenue will, on the contrary, be reduced. The starting rate for Hong Kong's progressive tax on personal income and interest is 5 percent, divided into five levels. Not only are the exemptions high (equal to the average income from wages) for the mainland's regulatory tax on personal income, the tax rates are also high. The first starting rate is 20 percent, and the marginal tax rate is higher at 60 percent (regulatory tax on personal income starts at 5 percent and the marginal rate is 45 percent). The concept of taxation has been lacking for the past 20-30 years. Now, when all of a sudden it is set so high, people naturally find it difficult to accept.

Fourth, because mainland residents have more "gray income," tax authorities have greater difficulty.

Most "gray income" consists of nonwage and off-the-record cash income. The reimbursing unit or individual as a rule do not voluntarily provide tax data. In the past, tax offices have always targeted for investigation business firms whose records could be examined. As a rule, there is a lack of records on personal income, and it consequently falls through the cracks.

It Is Not Too Late To Mend the Fence Even Though Some Sheep Have Been Lost

With the government of China's deficit getting larger and with personal savings greatly increasing, it has been impossible to halt the tendency for income to be distributed to individuals. While the control of wealth by the people is not necessarily a bad thing, an impoverished government is not necessarily a good thing. In many countries of the world, both the people and the government are wealthy. Tax revenues represent an important regulatory lever. With the income of residents now on the increase and the standard of living improving markedly, it would be better than issuing large amounts of treasury bonds to spend some time seriously searching out sources of taxation. While treasury bonds look convenient, principal and interest still have to be paid. While taxation initially looks costly, it actually is a slight improvement. The results of the two approaches are not the same. It appears that it is now imperative for the government to appropriately replenish its treasury with tax revenues. In fact, even if new varieties of taxation are not imposed, the old tax revenues will have to be adjusted. China's tax revenues must at least double. At present, the knowledge of tax laws is being strengthened among China's citizens. This is a good start. However, in addition to this, I suggest that China, as a point of departure, make appropriate use of the experience in tax management of foreign countries.

1. The mainland tax system must go through a process of development and improvement. Work should begin on revising tax regulations to accord with the constant changes in China. Those regulations which can be combined should be combined and those which should be made more detailed should be made more detailed. It should be simple but not slipshod. Taxation must be convenient for the public and conform to economic principles. China's actual situation must be considered. It should first be simple and later more varied; it should first be low and later higher; it should collect from the many with slight variation; and it should gradually be improved.

2. Citizens must gradually form a public consciousness and the habit of paying taxes through respect for law. This can be accomplished by rectifying tax procedures, improving efficiency, strengthening propaganda and tax management, and setting up a system of various types of rewards and penalties.

3. A whole gamut of tax categories, in addition to regulatory taxes on personal income, must be looked into and considered.

4. Procedurally, an integrated computation and collection of taxes could be considered. They could be computed and collected item by item, once each year or twice a year. At the same time, taxes could be linked with an individual's political and economic benefits, such as housing, job promotions, children's acceptance in school, health care, and even retirement. Politically, those holding public office and those chosen for various offices in the National People Congress and the People's Political Consultative Conference could, for example, set the moral standard for respecting tax laws and be subject to careful scrutiny.

Report on Tax Collection First 6 Months

91CE0744A Beijing ZHONGGUO SHUIWU BAO
in Chinese 8 Aug 91 p 1

[Article by Zhao Feng (6392 2800): "First Half Tax Receipts Show Steady Growth, Work Will Be Hard in the Second Half"]

[Text] This year, all sectors of the Chinese economy are in recovery and the economic situation is developing in a positive direction. On this basis, tax organizations at all levels and numerous revenue cadre, through their vigorous efforts, have achieved six consecutive months of steadily increasing tax receipts. In the first half of the year, business and commercial taxes totaled 98 billion yuan, an increase of 5.97 billion yuan, or 6.5 percent, over the same period in 1990. Other revenue in the same period came to 36.52 billion yuan.

There are three points to be noted about business and commercial tax receipts in the first half of the year:

Receipts from major revenue-producing taxes increased steadily. In the wake of China's general economic recovery, and especially the acceleration of growth in industries owned by the whole people, there has been steady growth in revenue derived from the sales tax, the value-added tax, and the transaction tax, which account for about 85 percent of all tax receipts. Their growth rates were 6.1 percent, 12.1 percent and 7.5 percent respectively. The portion of taxes derived from industry rose 10.1 percent over the same period in 1990, about the same as growth in industrial output value during the same period. This established the basis for a steady increase in overall taxes.

Receipts from both large and small sources increased significantly. Facing a difficult tax collection task this year, tax organizations in all areas are upholding the principles of "stressing big taxes without neglecting the small" and "catching the small fish as well as the big ones." On the one hand, they are pressing major tax-paying enterprises for more revenue and clearing up cases where back taxes are owed. On the other hand, they continue to tighten supervision over smaller taxpayers. In the first half of the year, taxes collected from cigarettes, electric power, chemical, machinery, metals, building materials and other major products increased

more than 10 percent. Individual, local and other miscellaneous taxes increased 11.4 percent and 8.4 percent. In addition, tax organizations continued to expand tax auditing. Supplemental collections from would-be tax evaders came to 1.2 billion yuan, a 14.9 percent increase over the same period in 1990.

Local progress was uneven. In the first half of the year, of the 44 provinces, municipalities, autonomous regions, and cities under the jurisdiction of counties Guangdong, Hainan, Fujian, Guangxi, Yunnan, Xinjiang and Shenzhen, Ningpo and Changchun remitted their taxes on schedule, and tax receipts increased by more than 8 percent. But 13 provinces and cities were behind schedule, and seven provinces (cities and autonomous regions) and two cities under the jurisdiction of counties collected less than 45 percent of their quotas.

In the first half of the year, production continued to increase, market demand recovered steadily, and tax receipts increased, showing clear improvement over indicators a year earlier when the economy was in recession. But in the second half of the year, unfavorable factors exist that will make this year's tax collections difficult to complete. The situation leaves no room for optimism. First, there is the sluggishness of the reproduction cycle. Product mixes are adjusted only slowly. The conflict between quick development of production, and slow increase in demand is worsening. Possession of the "three sources of funds" remains high, and there is a serious problem of "triangular debts." All this makes for great difficulty in collecting back taxes. By the end of June, enterprises owed 11.4 billion yuan in taxes, an increase of 4.4 billion yuan over the beginning of the year and 2.26 billion yuan over the same time last year. The third quarter is the time for purchasing agricultural products, so financial needs will be even greater. Therefore, it will be an arduous task to collect back taxes and to control the growth of taxes owed. Second, Chinese exports are doing well, and it is possible that this will be an exceptional year for drawbacks. In the first half of the year, tax organizations nationwide, in keeping with Chinese national policy, processed 15.5 percent more in export drawbacks than during the same period in 1990, completing 55.7 percent of the annual plan. In the second half of the year, the need for export drawbacks will be greater and will bring great pressure on completion of the year's tax collection program. Third, some tax revenue will be lost because of disastrous floods. Since the beginning of the summer, heavy rains have led to disasters in many areas, especially in Anhui, Jiangsu, Henan, Hubei, Hunan, Guizhou, Sichuan, and Zhejiang and other provinces where the floods were especially serious, affecting both production and markets. Sales and transaction taxes will be especially affected. Now is the peak of the flood season, so more disasters are possible.

Raising revenue in the second half of the year will be hard work. Taxation departments in all areas must correctly understand the present economic and tax collection situations, continue to concentrate on clearing up

back taxes, and pursue major taxpayers. They must apply themselves to the main difficulties of tax collection, solving all revenue problems by hard work. They must tighten oversight of export drawbacks and tax remissions. Taxation departments at all levels must strengthen their resolve, overcome difficulties, and work to complete the mission of tax collection this year.

Tokyo Bank Branch Set Up in Shanghai

*OW2808004991 Beijing XINHUA in English
2355 GMT 27 Aug 91*

[Text] Shanghai, August 28 (XINHUA)—The Tokyo Bank Shanghai branch was set up August 16, according to financial sources here today.

The People's Bank of China approved the upgrading of the Shanghai liaison office of the Tokyo Bank to a branch bank. It is the third Japanese branch bank approved in Shanghai, after the Industrial Bank of Japan and Sanwa Bank. The bank handles foreign currency deposits, credit, financial consultation and other businesses.

Shanghai has so far approved applications from 13 foreign financial organizations to set up branches here.

People's Insurance Company To Increase Foreign Business

*HK0509011791 Beijing CHINA DAILY in English
5 Sep 91 p 2*

[By staff reporter Wang Xiangwei: "Insurance Firm Looks Overseas for Business"]

[Text] The People's Insurance Company of China, the country's major underwriter, is to increase its presence in Hong Kong, Macao, and Singapore.

The move is part of the company's plan to turn itself into a diversified global group of companies in the remaining decade of this century.

Yesterday afternoon, Li Yumin, PICC chairman and president, lectured top managers of the company's overseas branches and subsidiaries on the short-term and long-term development plans.

Together with the Bank of China, the PICC called the general managers of its subsidiaries and branches to stay in Beijing for a week-long conference.

PICC has an overseas network of more than 60 branches and offices employing over 800 people.

Li said that the conference aimed to review the company's overseas insurance developments and draw up the long-term and short-haul development plans for the 1990s.

They planned to set up a group of companies, riding on the advantage of Hong Kong returning to the mainland in 1997.

He said that in the next two to five years, the PICC would finalize all the legal procedures for establishment of the group of companies and start its official operations.

The company should take active and steady measures to find investment opportunities and increase investment returns.

He said that life insurance should be a top priority for the insurance arms in Hong Kong and Macao.

PICC subsidiaries should set up either solely-owned ventures or joint ventures to develop life insurance business not only in Hong Kong but also in the Southeast Asian region.

He said that PICC should open up more frontiers in Hong Kong and Macao by expanding the network and hiring more agents.

As Singapore is the financial hub of Southeast Asia, PICC should fully recognize its role in helping its branches to get into the Southeast Asian insurance market.

As a result, the PICC would strengthen the leadership of the two Singapore subsidiaries and develop life insurance there.

Li said that the PICC would also cement its relationship with counterparts in Taiwan.

He suggested direct insurance links across the Taiwan Strait to promote trade and commerce between the two sides.

Li said that because of lack of mutual cooperation at present, many problems have arisen out of the booming billion-dollar indirect trade between Taiwan and the mainland.

He said that PICC would send representatives to participate in an insurance symposium across the Taiwan Strait and would invite their Taiwan counterparts to visit the mainland.

Looking further ahead, Li said that the PICC would step up its efforts in Europe and America.

INDUSTRY

KEJI RIBAO Commentator's Article on High-Tech Development

*OW1408022991 Beijing XINHUA Domestic Service
in Chinese 1025 GMT 13 Aug 91*

[Text] Beijing, 13 August (XINHUA)—In its issue today, KEJI RIBAO publishes an article by a special commentator entitled: "Developing High Technology to Aid Industrialization." The article points out: The inference drawn by Comrade Deng Xiaoping that "science and technology is not merely a productive force but is the primary force" enriches and develops Marxist theory

on productive forces. The inference bears important and relevant meaning and provides far-reaching guidance to China's socialist construction and science and technology development.

The article is in three parts. The first part, linked to China's socialist construction practices, discusses the important functions of advanced science and technology in social development, emphatically attributing China's prosperity and progress to the superiority of the socialist system and the advance of science and technology. The second part stresses the importance of high-tech development in accomplishing the second-step strategic objective of China's socialist construction, saying that high-tech is not only required in transforming traditional industries but also in solving major problems like population, environment, and resources, which affects economic and social development. Science and technology and related industries have become the most crucial players in the game. The third part emphasizes the need for deepened reform and emancipation of the first productive force, hoping that the state will fully tap the resources of science and technology personnel and give proper play to their roles by creating better policies, environments, and working and living conditions.

Government To Cut Quantity in Textiles

OW1808091091 Beijing XINHUA in English
0726 GMT 18 Aug 91

[Text] Beijing, August 18 (XINHUA)—China will cut quantity in the production of textiles to reduce overstocking of products and adjust product structures, XINHUA learned today from a national cotton working meeting.

The spinning capacity in China has developed too fast in recent years and it has surpassed market demand.

As a result, the overstocking of pure cotton cloth, polyester fibre cloth, silk textiles, woollen goods and knitting wool has been increasing, the meeting was told.

This has held back the normal development of the textile industry.

The State Council urged departments concerned to strengthen management and be strict in approving new projects in the industry.

The state will take strong measures with textile enterprises which already have a large stock of products. The measures include limiting or stopping material supply.

Industrial Labor Productivity, Jan-Jun 91

HK2208115591 Beijing CEI Database in English
22 Aug 91

[Text] Beijing (CEI)—Following is a list of economic data showing the labor productivity in China's industrial sector by areas from January to June 1991, released by the State Statistical Bureau:

Area	1-6/91	(Unit: yuan/person)
		Change over 1-6/90 (pc)
National average	16481	6.9
Beijing	23068	6.4
Tianjin	22380	1.9
Hebei	14146	10.5
Shanxi	11017	2.5
Inner Mongolia	10450	0.3
Liaoning	15832	2.1
Jilin	12817	4.2
Heilongjiang	13324	2.7
Shanghai	28985	7.3
Jiangsu	20731	7.8
Zhejiang	21102	11.8
Anhui	14854	8.5
Fujian	16078	7.9
Jiangxi	11614	8.1
Shandong	19685	5.2
Henan	13981	11.1
Hubei	16341	4.6
Hunan	14125	5.3
Guangdong	25231	19.0
Guangxi	16072	7.5
Hainan	14327	8.3
Sichuan	12845	8.5
Guizhou	12037	1.9
Yunnan	19137	9.0
Tibet		
Shaanxi	12291	13.2
Gansu	14668	4.5
Qinghai	13514	3.9
Ningxia	13134	-1.6
Xinjiang	14402	11.0

Decrease Ratio of Industrial Product Cost by Area

HK2308145291 Beijing CEI Database in English
23 Aug 91

[Text] Beijing (CEI)—Following is a list of economic data showing the decrease ratio of industrial product cost in China by areas from January to June 1991, released by the State Statistical Bureau:

Area	1-6/91	1-6/90
National Average	-4.0	-5.8
Beijing	-7.5	0.2
Tianjin	-2.9	-3.2
Hebei	-0.5	-6.4

Area	1-6/91	1-6/90
National Average	-4.0	-5.8
Shanxi	-4.0	-5.3
Inner Mongolia	-2.9	-9.1
Liaoning	-3.1	-8.7
Jilin	-1.8	-4.7
Heilongjiang	-2.8	-6.0
Shanghai	-5.6	-5.5
Jiangsu	-1.3	-0.8
Zhejiang	1.5	-1.2
Anhui	-2.1	-4.0
Fujian	-0.1	-1.9
Jiangxi	-1.5	-3.3
Shandong	0	-2.9
Henan	-2.9	-8.7
Hubei	-5.6	-5.2
Hunan	-1.5	-3.1
Guangdong	-6.0	-1.3
Guangxi	-0.7	-1.7
Hainan	-2.4	-2.1
Sichuan	-1.5	-6.3
Guizhou	-5.6	-6.2
Yunnan	-5.0	-10.1
Tibet		
Shaanxi	-2.9	-6.4
Gansu	-1.7	-5.6
Qinghai	-2.9	-8.2
Ningxia	-4.0	-5.2
Xinjiang	-8.6	-5.6

Production of Machinery, Electronics Increases

OW0709032391 Beijing XINHUA in English
0221 GMT 7 Sep 91

[Text] Beijing, September 7 (XINHUA)—During the Seventh Five-Year Plan period (1986-1990), China's output value of machinery and electronic goods increased by 68 percent, while its exports of these items rose by 560 percent.

Experts attributed the sharp increase to the integration of machinery with electronic technology.

During the five-year period, Chinese scientists made 876 research achievements in adapting micro-electronic, computer, information and other items of high technology to the machinery industry; about one-fifth of these items reached the world advanced level.

Computer-aided design technology developed during the period has now been applied in 294 machinery enterprises, helping develop 3,858 new products.

Automation control systems developed during the period have helped China reduce its expenditure on imports by 2.54 million U.S. dollars.

Ten kinds of industrial robots developed during the period have been put to work paint spraying, welding, assembling, punching, pressing, casting and in other fields. The functions of these robots have reached the world advanced level.

New Electric-Motor Automobile Developed

OW0809024191 Beijing XINHUA in English
0225 GMT 8 Sep 91

[Text] Hangzhou, September 8 (XINHUA)—An automobile plant in east China has developed a new model of electric-motor car, which is expected to become a household type in China.

The Yefeng electric-motor car plant in Wenzhou city, Zhejiang Province, will put the new model into mass production soon.

The five-seat model is slightly smaller than "Santana," a popular model produced by the Shanghai Volkswagen Corporation, weighs 920 kg and runs 82 km per hour at maximum. The battery will last 202 km at each charge.

The electric-motor car is also installed with a gasoline engine for long-distance drive.

Automobile experts here said that the success in production of the pollution-free car indicates China reached the international advanced level in development of electric-motor car.

They predict that the low-price car—less than 20,000 yuan (about 4,000 U.S. dollars)—will be popular among domestic consumers. The state has agreed that the new model will be trial marketed in Hangzhou, Wenzhou and Shenzhen.

Double-Digit Industrial Growth First 7 Months

HK0909014491 Beijing CHINA DAILY in English
9 Sep 91 p 1

[By staff reporter Zhang Yu'an]

[Text] China reported double-digit industrial growth in the first seven months of the year, prompting the State Statistical Bureau to warn against the possible overheating of the economy.

In August, industrial firms above the township level turned out 191.5 billion yuan (\$36.13 billion) worth of products, a rise of 14.6 percent over the same period last year, according to a report released by the statistical bureau last Saturday.

The growth rate was the highest so far this year, despite the affects of the flooding which hit vast areas of the country, it said.

But the news is not all good as the report said that there "has not been an obvious improvement" in the efficiency of the country's industrial firms which are still plagued by "continuously increasing stockpiles."

The bureau suggested measures should be taken to reduce or limit production of those firms or industries with large stockpiles.

Of the total industrial output, the output of light industry increased 14.9 percent in August to 90 billion yuan (\$16.98 billion), while heavy industry registered an output of 101.5 billion yuan (\$19.15 billion), up 14.3 percent over the same month last year, it said.

Rural industries took the lead in output growth last month with a rise of 22.8 percent. The rural firms in Anhui and Jiangsu provinces, two of the areas hardest hit by the floods, recovered quickly from the flood damages and increased output by 29.1 percent and 12.6 percent respectively last month, it said.

The growth rate for State-run enterprises was 10.5 percent and for urban collectively-owned enterprises was 16.5 percent, according to the report.

Guangdong Province in South China, a pioneer of the open policy, still showed the highest industrial growth rate with a figure of 26.5 percent, followed by Zhejiang and Fujian provinces, whose growth rates were up 20.6 percent from the same period last year.

Last month's high output pushed China's total industrial production value to 1,504.2 billion yuan (\$283.81 billion) in the January-August period, registering a rise of 13.7 percent compared to the same period last year, the report said.

However, energy production dropped by 0.1 percent last month, of which coal output was down 1 percent.

The six-month decline in coal production threw a shadow on the energy market because the final quarter of the year was usually the peak period for coal consumption with winter forthcoming, it explained.

The bureau suggested measures should be made to strengthen coal production.

Still, electricity generating capacity rose by 9.8 percent last month, the report added.

In August, most of the country's key raw materials accelerated their output, of which steel output went up by 10.8 percent over the same month last year.

At the same time, the report said, machinery and electronics products for fixed assets investment also maintained rapid growth.

Production of bikes, color television sets, video recorders, yarn, wool and beer also surpassed planned quotas, the report said.

Technical, Economic Indexes of Enterprises in June

HK1309112791 Beijing CEI Database in English
13 Sep 91

[Text] Beijing (CEI)—Following is a list of the main technical and economic indexes of some of China's major enterprises in June 1991, released by the China State Statistical Bureau:

	Unit	6/91	6/90
A. Coal industry			
1. Ash ratio of coal	pc.	19.37	18.73
2. Waste rock ratio of coal	pc.	0.10	0.12
3. Timber used in coal mining	10,000t	36.05	39.28
4. Power consumption	kwh [kilowatt hours/t]	42.93	40.48
B. Oil industry			
1. Oil consumption in production	pc.	1.79	1.77
2. Power consumption in production	kwh	89.70	79.40
C. Power industry			
1. Qualified power cycle	pc.	99.45	99.71
2. Coal consumption in power production	g/kwh	393	393
3. Power consumption in transmission	pc.	5.89	8.91
D. Metallurgical industry			
1. Qualified pig iron	pc.	99.94	99.98
2. Qualified rolled steel	pc.	98.14	88.61
3. Iron ore consump. for pig iron productionxix	kg/t	1808	1786
4. Comprehensive coke ratio	kg/t	571	567
E. Machinery industry			
1. Off-iron ratio	pc.	7.22	7.40
2. Power consumption in electric steelmaking	kwh/t	720.72	740.20
3. Coke consumption in cupola furnace and metal furnace	kg/t	128.78	128.13

SMALL-SCALE ENTERPRISES

Number of Private Businessmen Continues To Climb

OW1408040891 Beijing XINHUA in English
0102 GMT 14 Aug 91

[Text] Beijing, August 14 (XINHUA)—The total number of households of private industrialists and businessmen in China had reached 13.275 million by the end

of June this year, a 6.8 percent increase over the same period of last year, according to the State Administration of Industry and Commerce.

Private firms employed 21.04 million workers, and their total capital was about 42.85 billion yuan (about 8.57 billion U.S. dollars) by the end of June—respectively an 8.7 percent and 18 percent increase over the same period of last year.

Private firms are mainly engaged in commerce, food processing, services, construction and repairs.

Entrepreneurs To Compete on World Market

OW1009012191 Beijing XINHUA in English
0109 GMT 10 Sep 91

[Text] Hefei, September 10 (XINHUA)—Just like numerous other entrepreneurs in China today, Cai Fuquan, director of the Anqing Leather Plant in east China's Anhui Province, has set targets designed to introduce more Chinese products to the world market and attract overseas investors.

Immediately after assuming his post as plant director five years ago, Cai, 33, began to seek foreign cooperation and ways to export his plant's products. As a result, the plant has established economic, technological and trade relations with a number of countries, including Japan, France and the United States. It has also exported dozens of different products; in 1990 the exported products were valued at over 10 million yuan, making the leather plant the major exporter in Anhui Province.

The plant, which employs 1,500 workers, produces 300,000 tanned hides, 800,000 pairs of shoes, and two million other leather products in over 1,000 varieties annually. The plant's annual output value now stands at 30 million yuan, while it pays profits and taxes of over four million yuan a year.

Cai has established a technical upgrading program for his plant, and has targeted an annual output value of over 100 million yuan by the end of the Eighth Five-Year Plan Period (1991-1995). In addition, Cai projects that annual profits and taxes will reach 25 million yuan and foreign exchange earnings, 20 million U.S. dollars during the period.

Another entrepreneur, Zhang Enshu, manager of the China Construction Engineering Corporation, is now known as a "worldwide contractor." Since 1983 Zhang has contracted projects involving over 2.1 billion U.S. dollars, including a major project in Iraq valued at over 260 million U.S. dollars, as well as highrise buildings in Macao and Bangkok. All of the projects have won praise for their high quality and low price.

Huang Chun'e, manager of the Dalian Petrochemicals Company, was the first to sell Chinese lubricating oil in the United States. Within a period of six years the company exported a total of 270,000 tons of lubricating oil in eight varieties, accounting for 90 percent of the

country's total exports of this kind of product and earning 100 million U.S. dollars in foreign exchange.

In 1990 the company realized 900 million yuan in profits and taxes.

Hu Zhensheng, director of the Tianjin Xinhua Garment Plant, is both strict on product quality and reliable in carrying out contracts signed with foreign partners. The company's clothes are warmly welcomed in more than 30 countries and regions worldwide. Meanwhile, with the cooperation of foreign partners, many Chinese entrepreneurs have focused their attention on the development of new and high-tech products. Senior engineer Zhang Lianxiang, 51, assumed the post of director of the Wuhan Heavy-Duty Machine Tool Plant in 1986. In tandem with the deepening of reform in his plant, Zhang boldly imported foreign advanced technologies and cooperated with foreign partners to improve the quality of his products. Statistics show that numerical-control and precision products account for 80 percent of the plant's output. Together with a company from Germany, the plant developed the country's first 16-m numerical-control single-pillar vertical lathe.

Shao Xiquan, director of the Beijing Dongfang Chemical Plant, has gone all out to develop his plant into a foreign-oriented enterprise with high economic efficiency and developed high technologies through cooperation with foreign partners.

Since it started cooperation with a company from the United States six years ago the plant's total industrial output value, and profits and taxes increased at average rates of 34 percent and 52.38 percent, respectively, a year. During this period, the plant's foreign exchange earnings stood at 20.537 million U.S. dollars. And the total investment in the plant was recouped within four years.

China has 7.9 million enterprises, over 400,000 of them industrial enterprises at and above county level. Some 12,000 are large-scale enterprises. Foreign-funded enterprises stand at 22,000.

Due to the development of a foreign-oriented economy together with the import of foreign advanced technologies and funds, in the past decade and more the country raised its import and export volume from 38 billion U.S. dollars ten years ago to 115.4 billion U.S. dollars in 1990.

COMMERCE

MOFERT Official Discusses MFN, U.S. Trade Relations

91CE0693A Beijing GUOJI SHANGBAO in Chinese
30 Jul 91 p 1

[Article by Sun Zhenyu (1327 2182 1342): "Most Favored Nation Treatment and Sino-U.S. Relations"]

[Text] The debate in the United States Congress over whether to extend most favored nation status to China has attracted attention. What affect does MFN have on developing Sino-U.S. economic and trade relations? What effect would cancelling MFN status have? What are the prospects for extending unconditional MFN status in 1991? What is China's attitude on this issue?

Everyone knows that the so-called MFN status is not unilateral preferential treatment extended to China by the United States. Rather, it is bilateral nondiscriminatory trade status which the two countries extend to each other. The Sino-U.S. Agreement on Trade Relations which took effect in February 1980 stipulates: both signatory parties to the agreement extend preferential status to each other in order to establish bilateral trade relations on a nondiscriminatory basis. At present the United States extends MFN status to more than 100 countries. Only ten or so countries have been excluded. Of the countries which have signed trade agreements with China, 113 enjoy preferential trade status extended by China. Therefore, cancelling China's MFN status actually implies discriminatory treatment in future bilateral trade.

Bilateral trade has grown rapidly since China and the United States established diplomatic relations in 1979. The volume of trade has grown from \$2.4 billion in 1979 to \$11.8 billion in 1990; this is directly related to MFN status. Once the United States ceases to extend MFN status to China, that will be a unilateral act on the part of the United States of tearing apart Sino-U.S. trade relations. It will seriously hamper bilateral political, economic and trade relations.

Should the United States cancel MFN status, it naturally would have an unfortunate effect on Chinese exports to the United States and on the external orientation of the southern provinces. However, doing so will also seriously harm the interests of American exporters, importers, producers, and agriculturalists who trade with China, and investors in China, as well as the general American consumer. Likewise, it will be an attack on Hong Kong. Thus, cancellation of MFN status is in the interests of neither China nor the United States. It also is detrimental to the stability and coordinated development of the entire Asian Pacific region and the world.

In the course of the debate on extending MFN status to China in the U.S. Senate and House of Representatives, some congressmen proposed various addenda. China cannot accept this. According to the Agreement on Sino-U.S. Trade Relations, China did not append any conditions to its extension of MFN status to the United States. It would be unfair for the United States to add conditions unilaterally. Doing so would violate the articles of the bilateral trade agreement.

It is very clear to the United States; the present annual deliberations on extending MFN status has cast a shadow on Sino-U.S. economic and trade relations. It has dampened the enthusiasm of Chinese and American

businessmen for expanding bilateral economic and trade cooperation. If conditions are added, this will further destroy the atmosphere and climate for Sino-U.S. economic and trade relations. It will force even more businessmen to consider gradually withdrawing from Sino-U.S. trade and economic cooperation. This would engender a great retreat in Sino-U.S. economic trade relations.

If we further analyze the opinions of the American congressmen, we can see that the majority of them are of a political nature; for example, the issues of human rights, arms sales, birth control, and Tibet. These issues are clearly and totally unrelated to the category of pure trade with MFN status. It is irrational to harshly lump these issues together with MFN status. Bilateral diplomatic relations have been established for more than a decade. Any political issues between the two countries can be resolved through normal diplomatic channels and equal accords or through international multilateral negotiations. There is no reason to relate them definitely to MFN status. There are many such unresolved political issues between the United States and other countries to which it extends MFN status, but the United States has not linked political matters to MFN status. Some American congressmen contend that any issue can be made a condition for extending MFN status. This is truly absurd. It is irresponsible nearsighted behavior to use MFN status as a tool to exert political pressure and even go so far as to threaten to destroy long-term economic and trade relations.

Since the beginning of 1991, when this issue came up, the situation has been a rather serious and precipitous. The American press and public opinion have made a lot of unfavorable propaganda regarding extending MFN status to China. There also has been strong sentiment against doing so on the part of congressmen in the Senate and House of Representatives. There was a gradual change in the situation after President Bush officially announced unconditional extension of MFN status to China on 27 May. Overseas Chinese and Chinese compatriots in American industrial and commercial circles and Chinese students studying in the United States endangered and threatened the importance of Sino-U.S. relations by using various means to convince congressmen to cancel China's MFN status. Chinese departments concerned, foreign trade companies, industrial trade companies, and the Chinese Embassy in the United States worked hard.

When the House of Representatives took a vote on the issue on 10 July, the situation improved over that in 1990; support for the proposal to cancel MFN status to China had 24 fewer votes and opposition to the proposal gained 70 votes. If nothing unexpected happens, it is expected that it will be hard for the Senate to get two-thirds of the senators' vote on the proposals advocating cancellation of MFN status and advocating adding appended conditions, enough to veto President Bush's vote. Therefore, it is expected that in 1991 MFN status will be extended unconditionally. Of course, this

does not eliminate the possibility that President Bush will make promises to the requests of certain congressmen.

Our attitude is:

The Chinese Government has consistently given high regard to developing economic and trade relations with the United States. There is no longer any formidable fundamental political conflict in Sino-U.S. relations. There is a strong mutual need in economic terms. The Chinese side deeply understands the serious political, economic and trade consequences of cancelling MFN status as well as the economic losses to both countries. Therefore, the Chinese side has adopted a series of positive measures in order to obtain an extension of MFN status. These measures include: Engaging in discussions with the United States regarding human rights and arms sales; making real progress on the issue of intellectual property rights; sending purchasing delegations to the United States; striving to reverse the downturn in imports from the United States; stipulating that products produced under labor reform shall not be exported, and not allowing labor reform units to engage in imports or exports; strictly augmenting control of textile exports to the United States and entrepot quotas. It is obvious to all that China has made the greatest efforts with regard to the MFN issue.

With regard to MFN status, China on the one hand will strive for a good outcome and on the other hand prepare for the worst. When the day comes that the United States cancels MFN status to China, both countries will pay the price. As far as China is concerned, it is not the end of the world. On the contrary, it will accelerate the pace of China's policy of trade diversification. While developing trade with West Europe, North America, and Japan, China will also strive to expand economic and trade cooperation with Asia, Africa, Latin America, the countries of the South Pacific, the Soviet Union and East Europe. China will not be isolated. We have friends all over the world.

Our goal is to resolve the MFN issue in a fundamental way and eliminate the system of the United States in which there are annual deliberations to extend MFN status. It is understandable that the present system in which every year there is one half year of deliberations on the issue creates a negative psychology on the people. It is difficult for bilateral economic and trade relations to get on the proper track without fundamentally resolving the issue. Of course, to a large degree, this depends on improved bilateral relations as well as changes in the international situation. We hope that all knowledgeable persons in the United States will work side by side with us and strive to fundamentally resolve the issue of MFN status for the good of continuously improving Sino-American relations.

FOREIGN TRADE, INVESTMENT

Foreign Investment in Fujian, Special Policies

91CE0611A Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 22,
3 Jun 91 p 28

[Article by Chen Jinbo (7115 6855 2672): "New Actions in Fujian's Absorbing Foreign Investment"]

[Text] Nearly 2000 "Foreign-Funded" Enterprises in Production

As one of the first provinces to open up and adopt "special policies and flexible measures," Fujian has been taking the lead in attracting foreign, especially Taiwan investment in the nation, with its advantageous geography, large numbers of overseas Chinese, natural resources, and sufficient labor force. According to statistics, by the end of 1990, Fujian had approved the establishment of 3,751 foreign-funded enterprises, contractual foreign investment worth \$3.34 billion, and 1,988 "foreign-funded" enterprises have started business. In 1990, these enterprises realized 8.447 billion yuan of output value, accounting for 27.8 percent of the total industrial output value above the township level in Fujian. They earned \$797 million from export, accounting for 36 percent of provincial export income. Foreign-funded enterprises turned in 11 percent of provincial industrial and business revenue, and created more than 300,000 jobs. These enterprises have become a pillar in Fujian's development of foreign oriented economy.

New Breakthroughs in Five Areas

To expand foreign investment more effectively, and accelerate foreign investment, Fujian has made new arrangements and taken a series of new actions.

The general plan is to strengthen macro adjustment, control and advice based on the state industrial policy and foreign investment direction policy. Follow the principle of "advancing all large, medium, and small projects, and welcoming all investment from Hong Kong, Macao, overseas Chinese and foreign nations" in the guidance and approval of foreign investment. Persist in "five combinations," which means: encouraging foreign businessmen to develop large areas of land and isolated industrial projects; developing basic industries, basic facility projects and processing industries; attracting labor-intensive projects and capital and technology intensive projects; starting new enterprises and remodeling old enterprises; and introducing industrial projects and developmental agricultural projects. The focus is on the realization of new breakthroughs in the following five areas: attracting investment from Taiwan and foreign nations and directing it to large enterprises; establishing joint projects with Taiwan in agricultural development; steering Taiwan and foreign investment in

whole areas of land development; directing investment to basic facility construction, and to remodeling old enterprises.

Fujian will gradually form the "three points" (Fuzhou, Meizhou Bay, Xiamen) and "two lines" (along the Fu-Xia highway and railway) as the general layout to attract foreign investment to develop a foreign oriented economy. Further, attention will be paid to hierarchical importance and developmental speed in the opening up process, on the basis of regional and time differences, to make ordered progress, weaknesses in one aspect may be supplemented by strengths in the other, and all areas will get ahead. Xiamen will be developed into an external, and comprehensive economic special zone with the focus on industry and advanced technology to spur on the development of the Jiulong River delta and gradually expand to the south and west of Fujian. Fuzhou will become an open city with a system of trade, industry and technology complex to enhance the development of Min River Valley and the eastern region of Fujian. Meizhou Bay will be gradually established as a region with heavy and chemical industry, tourism, and processing industry for export to promote economic development of central Fujian. Coastal regions will take the lead in developing a foreign oriented economy to bring about general development in inland and mountainous areas.

Taking in Foreign Investment Extensively

During the Eighth Five-Year Plan (1991-1995), Fujian intends to more than double the total foreign investment of the Sixth Five-Year Plan and Seventh Five-Year Plan combined. Imported projects will reach higher and deeper levels to promote the realization of the developmental goal of an average annual increase of 8 percent in the provincial general production output value.

New actions taken in Fujian for attracting foreign investment also include the following concrete measures:

—Expand Taiwan investment, and actively promote competition and cooperation among Taiwan, Hong Kong, overseas Chinese, and foreign sources in their investment. Taiwan will maintain an important position in attracting investment, and Fujian will maintain a leading position in the nation for attracting Taiwan investment. Therefore, we must improve local legislation, and adopt more favorable policies. While efforts are being made to build Taiwan investment zones in Xiamen and Fuzhou, financial and material resources will be rounded up to speed the construction of basic facilities. In 10 years, Fujian will build one express way, three airports, three sea ports and three railroads to create a favorable environment for large scale foreign and Taiwan investment.

—Establish and constantly update projects for foreign investment. At present, Fujian has planned 2,000 projects from which foreign businesses may select.

—Perfect and carry out a joint inspection and approval system to upgrade efficiency and quality of project inspection and approval, and reduce procedures and time.

—Establish coordination agencies to effectively help solve problems in foreign-funded enterprises. Foreign trade agencies will invite other relevant agencies to set up coordination agencies similar to production management to provide services for "foreign-funded" enterprises.

—Establish service centers for foreign investment and gradually set up service systems, markets and mechanisms for foreign-funded enterprises so that foreign businessmen may acquire labor, technology, funds, means of production, necessary consultation and commissions from the market legally. This way, foreign-funded enterprises will be able to legally carry on independent operations based.

—Establish an economic dispute arbitration center for foreign-funded enterprises to exclusively deal with complaints from these enterprises and properly help solve economic disputes in time. Authorized by China's Trade Promotion Association, its Fujian Branch has invited representatives from relevant agencies to set up an arbitration center. Enterprises may thus have access to it for dispute complaints and arbitration and have their legal right and interests protected.

—Strengthen cadre training in foreign investment and build contract management systems. In the near term, organize four large specialized cadre training for cadres of foreign-funded enterprises. Also, the relative stability of such cadre ranks has to be assured to enhance constant upgrading of their quality, and make the work of absorbing foreign investment more formalized and scientific.

—Open up multi-channels for attracting foreign investment and doing business, with the goal of new breakthroughs in business negotiations, contracts and investment volume. Important business activities in Fujian this year include: sending delegations to the Second Investment Fair of Asian and Pacific Regions to be held in Hong Kong, sponsoring 92 Xiamen Foreign Investment and Business Fair, and sponsoring Fujian Export Commodity Fair in Hamburg, West Germany. At the same time, various regions in Fujian will effectively organize business activities by way of cultural exchange, friendly visits, and specialized activities with foreign nations and regions, to extensively take in foreign investment.

Light Industrial Products Imports, First Half 1991*HK3107115991 Beijing CEI Database in English
31 Jul 91*

[Text] Beijing (CEI)—Following is a list showing China's import volume of light industrial products in first half of 1991, according to primary statistics released by the general administration of customs:

Item	Unit	Jan.-June 1991	Jan.-June 1990
Cigarette	1,000 stk	2,598,418	2,773,518
Log	c.m.	1,783,473	1,705,388
Pulp	ton	237,524	68,882
Crude drugs	ton	3,563	1,375
Paper and paperboard	ton	503,174	363,359
newsprint	ton	5,898	11,007
cement	ton	55,711	234,898
Household fridge	set	12,317	76,276
Non-household fridge	set	1,774	2,213
Air-conditioner	set	25,648	14,672
Copying machine	set	6,206	2,553
TV set	set	243,794	360,194
color	set	15,256	39,367
Video recorders	set	6,670	23,264
Sound recorders	set	144,009	1,188,834
Washing machine	set	3,848	1,666
Household washer	set	3,164	1,098
Camera	set	23,859	11,218
Cameras for specific use	unit	126	74
General cameras	unit	23,733	11,144
Materials for processing, assembling	10,000 usd	463,774	371,773

(excluding those processed on contracts)

Chemical, Machinery Products Imports, First Half 1991*HK3107121291 Beijing CEI Database in English
31 Jul 91*

[Text] Beijing (CEI)—Following is a list showing China's import volume of chemical and machinery products in first half of 1991, according to primary statistics released by the General Administration of Customs:

Item	Unit	1-6 1991	1-6 1990
Rubber	ton	175,928	148,406
Syn rubber	ton	23,747	15,462
Crude oil	ton	2,258,470	1,949,396
Refined oil	ton	1,656,877	1,533,577

Caprolactam	ton	3,698	22,585
neutral sodium carbonate	ton	21,207	175,068
Syn organic dyestuff	ton	6,705	3,835
Medicine	10,000 USD	21,013	16,775
Syn fertilizers	ton	8,725,697	7,073,935
Urea	ton	3,495,173	3,742,197
Pesticides	ton	18,927	17,766
Machine-tool set	24,971	18,585	
Motors, chassis	unit	38,142	26,827
Sedan car	unit	18,278	13,955
/Jeep	unit	432	237
Minibus	unit	1,355	947
Chassis	set	202	771
Motorcycle	unit	827	9,086
Ship	unit	2,185	1,991

Metals, Minerals Imports, First Half 1991*HK3107120491 Beijing CEI Database in English
31 Jul 91*

[Text] Beijing (CEI)—Following is a list showing China's import volume of metals and minerals in first half of 1991, released by the General Administration of Customs:

Item	Unit	1-6 1991	1-6 1990
Iron ore	ton	6,818,260	6,443,458
Coal	ton	880,838	1,135,197
Steel billets and roughly forgings	ton	29,045	111,731
Rolled steel	ton	1,464,628	2,134,977
Steel wire rod	ton	48,557	229,085
Steel angles, shapes and sections	ton	25,254	131,109
Seamless steel pipe	ton	453,590	332,996
Iron and steel wire	ton	8,494	30,950
Copper and alloy	ton	21,744	29,513
Alum and alloy	ton	21,577	47,361
Zinc and alloy	ton	4,810	3,311

POPULATION**Population Control, Social, Economic Development***91CE0725A Beijing ZHONGGUO TONGJI XINXI
BAO in Chinese 15 Jul 91 p 2*

[Article by staff reporters Jia Dechang (6328 1795 2490) and Xiao Jinghua (5135 0079 5478): "Population Control and China's Economic and Social Development in

the 1990's—Gist of Speeches at the Symposium on China's Population Problem"]

[Text] The last 10 years of this century will be critical years for the achievement of the strategic targets that China has set itself for the second stage of its economic and social development. During this period, China will be facing the third peak of population growth, and the population situation will become extremely menacing. China's mainland population already exceeds the 1.1 billion mark and increases at the speedy rate of 16 million new additions every year. Initiating appropriate countermeasures and a rigorous control of further population growth are extremely urgent strategic tasks for our party and our nation. In observance of World Population Day (11 July), and to study and probe into the relationship between population control and China's economic and social development in the 1990's, the Office of the Census at the State Council and the Chinese Statistical Information Newspaper held a symposium in Beijing on 9 July on China's population problem. The symposium was presided over by Sun Jingxin, deputy chairman of the census leading group in the State Council and concurrently director the group's administrative office, also vice president of the Chinese Demographic Society. Other Chinese experts on population problems and persons in charge of related work had been invited and participated in the symposium. The following is a gist of their statements:

The Population Situation in the 1990's Is Grim

Wang Weizhi (research fellow at the Population Research Institute, Chinese Academy of Social Sciences): The population problem is a worldwide problem. According to the 1990 Annual Report of World Population, the world population has already reached 5.41 billion, and the rate at which the population increases every year has gone up from the former 1.7 percent to the present 1.8 percent, showing a rising trend. China is a country with the largest population in the world; its mainland population at the end of 1990 had reached 1.14 billion. Since the 1970's, the Central Committee of the Communist Party of China [CPC] and the State Council have given serious attention to the population problem and have made family planning and population control a fundamental state policy. Up to now, very substantial successes have been achieved by China in its population control and family planning, in that its annual birth rate has been declining. However, since the basic figure of China's population is so large, the annual population increase is still quite considerable. In particular the period of the Eighth Five-Year Plan will be a peak period for births, and the population situation will remain grim. Why is it that there are all along these fairly rapid population increases in China, while other countries that in some cases even encourage births can maintain zero population growth? We have studied this problem for many years, and the reason is basically quite obvious. In my opinion there are three main reasons for this: One is the relatively low cultural level. A second reason is that the insurance problem has not yet been

solved. Many people fear to be left without anyone to care for them in old age. The third reason is the great disparity between city and countryside. City people are little inclined to have many children, but the countryside cannot easily be controlled in that respect. To realize our target of controlling the population for the next 10 years, it is a task of top priority for us to tackle the three mentioned problems in a comprehensive way.

Xiao Zili (director of the Chinese Center for Population Information and Research): There are good reasons for calling the Chinese population situation in the 1990's grim. First, the 1990's are the period of a third peak of births in China; there is an increase in women of child-bearing age, and this is particularly true of the first five years of the 1990's. According to forecasts based on a 10 percent sampling of the fourth national census, there will be on the average every year 330 million women between the ages of 15 and 49 during the period from 1991 to the year 2000, and there will be on the average every year over 100 million persons between the ages of 21 and 29 (women of this age group account for 75 percent of all births during any year). Furthermore, the high incidence of several births per family is serious, marriages and child births occur at earlier ages, and the rate of early births is increasing; all these are factors that lead to an inordinately rapid population increase. In his "Report on the Work of the Government," given to the Fourth Session of the Seventh National People's Congress, Premier Li Peng (2621 7720) definitely proposed that natural population growth during the coming 10 years will be controlled to within 15.5 per thousand per year. To achieve these targets, it is in my opinion necessary to focus our attention from now on on three aspects: First, our targets in population development must not only take quantitative concerns, but also qualitative, structural, and distributional concerns into consideration. We must fully understand our population development targets and formulate these targets in a comprehensive way. Second, our population policy must comprise three levels, namely birth policy, population policy, and development policy. Among these, birth policy is the core concern that must in no way can be treated indifferently; it has already taken shape fairly well. The problem is now how to coordinate this policy developmentally with our population policy and development policy. We must not always allow the birth policy to advance alone like the proverbial "isolated force penetrating deep into enemy territory," but must harmoniously coordinate it with our insurance policy, poverty relief policy, and employment policy. Within these well-coordinated policies, we must establish a trend that will favor a policy of less births along with eugenically healthy births.

Optimum Size of Population Is Precondition for Economic and Social Development

Li Huijing (member of the committee of experts of the National Family Planning Commission, assistant research fellow of the Economic Research Institute of the State Planning Commission): Since the establishment of

New China, great achievements have been accomplished in China's economic construction, and these achievements are inseparably linked with our firm pursuit since the 1970's of family planning and control of population growth. However, due to a variety of reasons, China's population increased faster than its economic growth, and the two were not harmoniously coordinated. There is mutual restraint and mutual interaction between population development and economic-social development. An economic structure at a determined stage of economic development can only accommodate a certain population. A population beyond this capacity will be of no benefit to speak of, and may even be an impediment to economic development. This is the often mentioned optimum population growth. Over a long period of its past, China's population growth had exceeded the level of its economic development. In many respects China is quantitatively first in the world or among the top-ranking countries, but if averaged out among its large population it is very low, even below the world's per capita quantitative figures. In the approximately 40 years of New China's past, half of its newly acquired national income is canceled out by the newly added population. In recent years, China has had very abundant harvests, but still had to import considerable quantities of grain from abroad every year. Apart from this, it is distinctly clear that many natural resources are very limited on a per capita basis. We must focus our attention on the fact that an excessively rapid population growth will have a detrimental effect on the development of the national economy. We must earnestly sense the urgency of this situation, and implement the policies of the Central Committee of the CPC and of the State Council regarding control of population growth and implementation of family planning. We must also exert efforts to achieve a congruity between population growth and economic-political development.

Zhang Chunyuan (director of the Population Research Institute of Beijing University, professor, and vice president of the Chinese Demographic Society): Excessive population growth has a direct adverse effect on economic development. It is a restricting factor on a favorable ratio between consumption and accumulation within the distribution of national income. It compels diversion of funds that originally should have gone to increase accumulation instead to consumption funds, in order to maintain, without decline, the consumption level of the original population under conditions of a newly increased population. Second, assuming that the same consumption funds remain available, in order to provide employment for the new population, it induces of necessity a decline in the average level of technical equipment. Third, assuming that the same consumption funds remain available, an excessive growth of population will, out of necessity, inhibit any raise in the consumption level of the original population.

Moreover, by its restrictive effect on all efforts to raise population quality, the newly added population will cause a decline in the per capita availability of essential

materials, will adversely effect efforts to improve the production structure, and will indirectly have a restrictive effect on economic development. Maintaining normal living and production conditions for the newly added population will require investments, and this will have an adverse effect on investments that would otherwise have gone to raising the quality of the population. To solve the employment problem of the newly added population, it will be necessary to develop labor-intensive enterprises, and this will have an adverse effect on efforts to optimize the industrial structure. According to general knowledge about the effects on the distribution of national income gained in present Chinese and worldwide studies of population increases, every 1 percent increase in the population will require 3 percent of the national income to service the said increase in population.

Liu Feng (deputy head of the Social Affairs Department of the State Planning Commission): In a more extended long-range view, the excessively rapid increase in population will have a most marked effect on the economy; it will have a bearing on China's ability to achieve success in the third stage of its strategic target, namely in the question whether China will be able by the middle of next century to achieve the living standard of a medium developed country. Calculated on the basis of data from the fourth national census, China's population by the year 2000 will be close to 1.3 billion. It will therefore become a very difficult proposition to control China's population to within 1.5 billion by the middle of the 21st century. Basing on the forecasts of scientists in this field, and according to China's present conditions of natural resources, such as minerals, energy sources, arable land, fresh water, etc., a population of 1.5 to 1.6 billion would be critical for China. If China's population growth maintains its upward tendency, considering the fact that its basic figure is already very large, China will certainly break through that critical border line. Striving to achieve zero population growth and exerting efforts to realize the target of controlled population growth must, therefore, not be relegated to the far-away future, but must firmly taken in hand during the period of the Eighth Five-Year Plan and before advent of the third peak of population growth.

Population Increase and Aging of the Population

Wu Cangping (member of the standing committee of the Chinese People's Political Consultative Conference, vice president and general secretary of the Chinese Demography Society, professor at the Chinese People's University): The problems connected with the aging population frequently come on very quietly. Presently, aging population is attracting more attention worldwide. Aging population is not only a problem of the developed countries, but is in a certain sense an even much more serious problem in the developing countries. Many developing countries are proposing the study of this issue. In the past, China has been completely quiet on this subject, afraid that discussion of this topic would adversely affect family planning work.

In fact, family planning and aging of the population are not mutually antagonistic subjects. A high birth rate is bound to lead to an aging population 60 years later. Proper handling of the aging problem and family planning are therefore mutually supplementary and complementary. In a developing country like China it is only when there are few births that a certain portion of the country's financial and natural resources could be applied toward old age insurance, while the solution of the old age insurance problem will make it possible to smoothly implement the country's family planning policy.

We have to gain scientific knowledge of the aging problem in China. The scale on which aging occurs in China is one of the largest, but its speed is not at all the fastest. However, there is a very large disparity between the aging problem in the cities and the aging problem in the countryside.

Population Growth of Ethnic Minorities and Family Planning

Yang Yixing (deputy director of the Department of Political and Legal Affairs in the State Nationalities Affairs Commission): The problem of population growth among the ethnic minorities in its relation to family planning deserves our close attention. The population of China's ethnic minorities has presently reached 91.2 million people, which is a 35 percent increase, compared to the third census of 1982 and almost double the nationwide increase. Reasons for that increase are: First, natural increases; second, changes of ethnic relationships of some ethnic Han comrades. People generally believe regions inhabited by ethnic minorities are spacious but sparsely populated regions. In reality this is not so. There are many regions with ethnic minorities that are unsuitable for human habitation, for instance, deserts and snow-covered mountains. But, in fact, in places where ethnic minorities live closely together, population density differs little from that in China's eastern regions, and it would therefore also be necessary there to practice family planning and appropriately control population growth. This is indeed already being done in many ethnic minority regions, and has been quite effective. However, there are also ethnic minority regions where family planning work has been restricted by particular difficulties. First, the cultural level of some ethnic minorities is comparatively low; second, there exist restraints due to natural conditions. Personnel in charge of family planning work are unable to deeply penetrate those regions; third, due to a low level of productive forces, there are many facets of their lives a need for human labor. Great difficulties are therefore encountered in family planning work in regions inhabited by ethnic minorities. Rendering family planning work effective among the ethnic minorities would make it necessary to tackle the said problems in a comprehensive way.

Zhang Tianlu (professor at the Beijing Institute of Economics): Population problems in the ethnic minority regions are in a certain sense more serious than in

regions inhabited by ethnic Han people because: a) population growth is faster, and b) cultural quality of the population is low. This creates the vicious circle of "the poorer, the more births; and the more births, the poorer." We have seen that in some ethnic minority regions it is difficult to extricate oneself from a state of poverty but easy to revert to a state of poverty, and that this is so for the above-stated reasons. The population problem in the ethnic minority regions must therefore have the highest degree of serious attention from the leadership at all levels.

Population Problem and Employment of Labor

Pan Feng (director of the Manpower and Resources Research Institute of the State Planning Commission): The problem of labor employment has all along been given the most serious consideration by the Central Committee of the CPC and by the State Council, who have paid very special attention to the problem all through these 40-odd years, and they have achieved successful results that have had the attention of the whole world. This has mainly manifested itself in the following ways: Persons engaged in social work in cities and in the countryside have increased faster than the growth rate of the population. In the proportion of employed population within the population as a whole, China ranks internationally comparatively high. During the period from 1952 to 1990, the population of the whole country has about doubled, while the number of those employed in social work during the same time had increased 2.7 times. Calculated according to a 10 percent sampling of the aggregate data of the fourth census, the employed population of China accounts up to 51.18 percent of the total population of the country, which is higher than the 45.36 percent of the United States, 46.72 percent of the Soviet Union, and 48.18 percent of Japan (at 1986 figures). In 1952, China's unemployed were 13.2 percent, which by 1990 had dropped to 2.5 percent. Due to the gradual implementation of family planning and the expansion of the areas of possible employment, the number of persons depending for care on the work of each employed person in the cities had declined from 3.29 in 1957 to 1.77 in 1990 (including the employed worker himself as one of the persons to be cared for).

However, as we look at the successes shown by these figures, we also have to look soberly at the fact that the basic situation in China of manpower supply exceeding demand has not yet changed. Looking at the present situation we see that there is a manpower surplus of over 100 million in the rural areas, for which we must seek new employment opportunities, and that there is an upward trend in urban unemployment during the last few years. Looking at the 10 years ahead, we can see that the manpower expected during the 1990's is about 190 million people; this figure, even when reduced by those leaving the labor force due to age, will remain around 100 million people. If we add to this figure the present one of more than 100 million surplus manpower in the cities and in the countryside, and also those that must be

relocated during the course of the industrial restructuring, as many as 200 million people will have to be provided employment. Looking at the situation from a more extended long-range view, we see that according to forecasts, and even assuming that we shall firmly adhere to the family planning policy, which will to some degree control the addition of the population reaching adulthood, we see that the new manpower in urban and rural areas will be rising and not diminishing, resulting in strong pressure to find employment. We must therefore be firm in, on the one hand, placing great emphasis on family planning work, and, on the other hand, energetically pursue economic development. We must be strict in controlling and arresting population growth and insist that any manpower increase conform to economic and social development, and we must furthermore the gate wide for new employment opportunities, so as to mitigate the employment pressure.

Zhang Zehou (director of the Statistical Science Research Institute of the State Statistical Bureau): I also want to say something about labor resources and labor employment problems. Presently, there are almost 700 million persons of working age in China, and the total number of persons employed in social work has reached to over 560 million. About 26 percent of these are in the cities and 74 percent in the countryside. Theory and practice has proven that it is a good thing to raise the proportion of employed among the total population, and our ratio in that respect is not low. However, the rate at which this ratio is raised must conform with the level of the productive forces, and the ways and means of raising the ratio must be rational; that means, increasing the ratio of persons of working age within the total population must start out from a controlled population growth and a change of the population structure. On the other hand, the present comparatively high rate of employment in China, apart from demonstrating the results of our many years of emphasis on family planning and population growth control, is to an even larger degree maintained by the excessively high number of persons of working age and the employment of persons not of working age. That, we must say, is not very rational. The working-age people in some economically developed countries generally find employment after graduating from senior middle schools, universities, or as research fellows; while in China, large numbers of junior middle school students, and in the countryside large numbers of primary school students, go to work. In summary, the number of employed in China may be large, but their quality is low and their distribution irrational. We must, therefore, from now on not only regulate the population structure through family planning and control of population growth, but also devote much energy to enhancing education, adjusting the educational structure, reducing employment of the youth, and must also gradually achieve modernization of the reproduction of our productive forces, hence change from a strategy of pursuing the principle of high employment to the strategy of pursuing the principle to economic efficiency. For this purpose it is necessary to develop energetically the

general education of people of working age before they enter into employment. This would be an absolutely indispensable measure to improve the quality of our manpower and to raise our labor productivity. At the same time, we shall have to strengthen retraining activities, prevent overaging of specialists, and have workers master new scientific techniques and skills. Training of workers before they enter into employment and on-the-job training, is, of course, bound to reduce the rate of persons of working age seeking employment. This reduction is necessary, rational, and is also an indication of scientific and technical progress and of progress in modernizing reproduction of our productive forces. It may also mitigate employment pressure in the population. I also emphasize that raising the employment ratio within the total population and reducing the rate of employment of persons of working age appear outwardly as contradictory, but they are mutually supplementary and complimentary factors, and at a higher level signify a harmonious blending of the pursuit of a high employment ratio and the principle of economic efficiency. These improvements are achieved on the basis of the control of population size, adjustment of the population structure, and on the basis of the fullest utilization of the manpower resource. Reductions too are achieved under conditions of fullest utilization of manpower resources, and will even more effectively raise the quality of the employed. This indicates an optimal integration of employment ratio and economic efficiency.

The Problem of Population Control in Relation to Marriage

Li Rongshi (deputy director of the Comprehensive Planning Department of the Ministry of Civil Affairs): I will speak on the problem of population control in relation to marriage. Marriage is the precondition and foundation for human procreation. In the 1950's, China annually registered the marriage of 2 million couples, which by the 1960's had increased to 4 million, by the 1970's to 6 million, by the 1980's to 8 million, and by the 1990's to almost 10 million (in 1990 the figure was 9.46 million). As marriages increased, births, of course, also increased. In the last few years, the proportion of unmarried people in the Chinese population dropped by 3.44 percentage points, and the age of high birth prospects advanced by two years, caused by the earlier ages of those entering matrimony. At the same time, feudal marriage practices have reappeared in some localities, marriages and pregnancies at too early an age, and occasionally various marriages occurred in disregard of the provisions of the law, for instance, "firecracker marriages," and "banquet marriages" (marriages without formal registration, merely by shooting off firecrackers or holding a banquet). It is said that marriages ignoring legal requirements account for about 15 percent of all marriages. These conditions indicate that in order to carry out family planning and strictly control population growth, comprehensive regulations on these matters is necessary; that work in many sectors, including marriage, must catch up; that loopholes in every conceivable direction

must be stopped; and that trades and professions must all enter into the act, exercising common control. This is the only way that greater success can be achieved in our efforts to control population growth.

Quality of Statistical Population Data Seriously Challenged

Sun Huaiyang (deputy head of the Census Office of the State Council, head of the Population Department of the State Statistical Bureau): As we look at conditions presently shown in various localities, we see that party and government organs at all levels energetically adopt measures to implement directives of the central authorities, and that they are making control of population growth a major norm for the assessment of political achievements of the various leaderships. To check the achievement of population control targets, Hebei Province recently instituted population investigation teams for all levels, from the provincial level down to the county level. Anhui Province has also decided to institute, twice a year, sample investigations of population figures in all counties. Most of the other provinces are also actively preparing measures to check the conditions of implementing family planning. However, we cannot avoid noticing that breaking up family planning work into many different levels, and the energetic implementation by party and government of the assessment of political achievements, has also created additional difficulties for population statistics work. The question of how to guarantee the quality of population statistical data is indeed a formidable challenge for those engaged in statistical work.

Looking back at the fourth census in 1990, the total figure computed at that time was about 15 million higher than the figure published as annual figure by the State Statistical Bureau, which clearly shows that omissions have definitely occurred in past reports of population statistics and sample investigations. Since we are to strictly control population growth from now on, how to prevent interference by basic level administrative leaderships in statistical population data, how to dispel fears about truly reporting excess births, how to solve the dissatisfaction felt by the masses with frequent investigations, also how to gain the support and cooperation of the masses, etc., all constitute a critical test faced in population statistics work during the 1990's. We must carry out full and effective preparations so as to meet the challenge and stand the test.

We Have Full Confidence in Population Control

Sun Jingxin (deputy chairman of the census leading group in the State Council and concurrently director of the group's administrative office, also vice president of the Chinese Demographic Society): The population problem has by now become a worldwide problem and is attracting the attention of more and more countries. According to the report by the United Nations Fund for Population Activities, the world population has reached 5.4 billion people. If the various countries of the world

will not adopt a truly effective "existence strategy," the world's population will rise to 8.5 billion by the year 2025. This would seriously impede all economic and social development in every country in the world. If we speak of the distress that the population problem is already inflicting, then we have to say that in China it has indeed become a very conspicuous problem. Data from last year's fourth nationwide census fully explain that the population situation in China is very grim. However, we firmly believe that in the eyes of the CPC there is no difficulty that cannot be overcome. Precisely as Secretary General Jiang Zemin (3068 3419 3046) recently said: There is no difficulty and no enemy that can conquer us, all will in the end be conquered by us.

We believe that with the high degree of serious attention from the CPC Central Committee, the State Council and the local party and government leadership at all levels, and with the earnest implementation by cadres at all levels of the fundamental state policy of family planning, with support and cooperation by the masses, it is a certainty that China's population control will become even more effective. We deeply believe that by the middle of the next century, at the time when the third stage of China's modernization target will be realized, China will certainly be able to achieve a population increase at an appropriate rate, that China will certainly be able to improved very substantially the quality of its population, and that a rational structure will certainly be maintained in China's population. China's population increase will also certainly conform harmoniously with its social and economic development. We can say with complete confidence: China's grand practices to achieve a solution of its population problem will with certainty be crowned by success!

TRANSPORTATION

Second-Phase Railway Electrification Project To Begin

*SK1209094391 Shijiazhuang HEBEI RIBAO
in Chinese 17 Jul 91 p 1*

[Summary] The second-phase project to electrify the 653.02-km double-track Daqin Railway, a key state construction project, will begin soon. The first-phase electrification from Datong to Dashizhuang was completed and commissioned at the end of 1988. The second-phase electrification from Dashizhuang to Qinsan Coal Port, 267.5 km long, will need more than 60 million yuan of investment.

Container Berths Open at Shekou Port

*OW2208051091 Beijing XINHUA in English
1515 GMT 21 Aug 91*

[Text] Shenzhen, August 21 (XINHUA)—Two 50,000-ton berths at the Shekou Container Harbor were put into trial operation today in Shekou port, south China's Shenzhen Special Economic Zone.

The two container berths, which are managed by the Container Harbor Ltd. of Shekou port, have 650 m [meters] of shore line and average 14 m in depth.

With the above and other attached facilities, the harbor has an annual handling capacity of 500 thousand standard containers.

After the first-phase construction on the two berths is completed, the harbor will initiate such services as direct open lines and ship loading.

Officials predicted that the special harbor would play an important role in the economic construction for both the mainland and Hong Kong.

New Commerce Office To Specialize in Shipping

HK2508071991 Beijing CHINA DAILY in English
24 Aug 91 p 2

[By staff reporter Chang Weimin: "Moves Taken To Spur Ship Exports"]

[Text] Chinese shipbuilders and companies that import and export ships will soon be consulting each other to coordinate the prices of vessels to be exported.

More rational prices are expected to be worked out this year by a new branch of the China Chamber of Commerce for Machinery and Electronics Import and Export that will specialize in the ship industry.

The establishment of the new branch was announced yesterday in Beijing.

The branch's secretary general Liu Kezeng said, "We'll soon start the work and we expect to make a draft before the end of the year."

Coordinating the prices of vessels for export is important but difficult as each enterprise has its own interests to guard, Li Zhushi, the organization's head said.

China now has some 600 shipyards, most of which are medium-sized or small and under one of several ministries.

The shipyards combined have a powerful capacity. For example, they built 147 of the 158 vessels China exported in 1988 and earned \$100 million. The other 11 vessels, all huge ones, were built by the shipyards under the China State Shipbuilding Corporation (CSSC).

Also there are 100 companies that have State-chartered rights to import and export ships.

Liu said prices of ships for export are to be set in accordance with consideration of factors including production costs in China and the situation of the world market and the prices will be adjusted each year.

"We believe the chamber will also help improve the order of the world market," the secretary general said.

The ship import and export branch of the chamber of commerce, which was approved by the Ministry of Foreign Economic Relations and Trade, received applications for membership from more than 100 enterprises and accepted an initial group of 66, including China's large shipyards and major ship trading companies.

Liu said the new branch will also help manage other business affairs among Chinese shipbuilders and trading companies.

It will promote cooperation and trade between Chinese companies and overseas firms, Liu said.

It expects to establish ties with overseas companies and help domestic firms open channels to the world market.

CSSC officials said Chinese shipyards are now actively cooperating with overseas companies.

Reports show that shipyards under the CSSC received overseas orders for vessels totalling more than 3 million dead weight tons and earned \$3 billion from the business between 1979 and last year.

For the first time in a decade, shipyards under the China State Shipbuilding Corporation went over their production target for the first half of the year.

CHINA DAILY Reports New Ship-Building Organization

OW2408013291 Beijing XINHUA in English
0114 GMT 24 Aug 91

[Text] Beijing, August 24 (XINHUA)—China has recently set up a new branch of the China Chamber of Commerce for machinery and electronics import and export that will specialize in the ship industry, CHINA DAILY reported today.

The establishment of the new branch was aimed to coordinate ship export work for the 600 shipbuilders and 100 ship trading companies.

With consideration of all factors, the new-born body is expected to work out more rational prices for vessels exported by the country and all the builders and traders will soon be consulting with each other to deal with the problem, the paper said.

China exported a total of 158 vessels in 1988, according to the paper.

Diversified Economy in Rail Construction Developed

OW2708100291 Beijing XINHUA Domestic Service
in Chinese 0058 GMT 27 Aug 91

[By reporter (Li Niangui) (2621 1628 6311)]

[Text] Beijing, 27 Aug (XINHUA)—According to the data cited at a diversified economy work meeting currently being held by the China Railway Construction

Corporation, this corporation has actively developed a diversified economy and broken through the conventional structure of unitary construction. As a result, a diversified economic system of industry, commerce, tourism, service trades, agriculture, animal husbandry, and fishery has started to take shape and will develop vigorously.

The China Railway Construction Corporation is a large building enterprise with 150,000 staff members and workers; their main task is to build railways. Since 1984, they have developed a diversified economy; have raised funds exceeding 300 million yuan; have run 842 stores, factories, restaurants, and other tourist and service trade units by using idle houses, space, and equipment; and have given jobs to more than 17,600 people. Their total output value in the past six years has reached 1.27 billion yuan, while their profit totaled 62.98 million yuan. They have paid taxes amounting to 40.12 million yuan.

These diversified economic productive units, scattered all over the 26 provinces, municipalities, and autonomous regions, have not only solved the corporation staff members', workers', and their family members' problems of food, lodging, and shopping, but also supplied society with numerous quality products. Currently they are able to produce over 1,500 different kinds of products, of which nearly 100 have entered international markets and are for sale in 26 countries and regions. Some enterprises have also successfully produced numerous high and new tech products. Products such as concrete adhesive thickening, wireless intelligent street lamp testing and control instruments, human body infrared robbery warning devices, and highly effective diesel oil additives were also produced by this corporation for the first time in China.

AGRICULTURE

Liu Zhongyi Views Farm Mechanization

91CE0683A Beijing NONGYE JIXIE [FARM MACHINERY] in Chinese No 5, 18 May 91 pp 2-4

[By Liu Zhongyi (0491 0022 0001), Minister of Agriculture: "Do Not Set a Time Limit for Farm Mechanization"]

[Excerpt] [passage omitted] **Several Points To Understand Concerning Farm Mechanization**

First, the function and position of farm mechanization. This is an old issue that has gone through several stages and several ups and downs. Let us focus for a bit on what has occurred from the time in 1959 when Chairman Mao pointed out that "the fundamental way out for agriculture lies in mechanization" up to the opening of the Third National Conference on Farm Mechanization. I now realize that the basic spirit of the Chairman's pronouncement was correct and that it should be affirmed. Comrade Deng Xiaoping has declared, "It could be that we will have to rely on technology for an

ultimate solution to agricultural problems. Chairman Mao's discussion of farm mechanization pertains to the tangible aspect of agriculture's scientific and technical development and stresses the importance of this aspect of S&T to agriculture." Comrade Deng Xiaoping's discussion of the need to rely on S&T to solve agricultural problems stresses the connotations of modern agriculture as its principle aspect, with mechanization being subsumed in science and technology. From this point of view, the thrust of the two formulations is the same. However, the two sentences span a period of more than 20 years. The meaning of farm mechanization was then quite broad. It included water conservancy, chemical fertilizers, farm machinery, etc. The level of S&T development at the time was relatively low. Essentially, only a few aspects of S&T achievements were applied to agriculture, all of which involved farm mechanization. Now, however, compared with then, the scope of newly developed S&T that is applied to agriculture has greatly broadened. It includes atomic energy, electronics, information technology, lasers, bioengineering, and space technology. Because things are in the process of development, including the S&T disciplines and new branches of learning and new technologies applicable to agriculture, the formulations for these things are also developing. It follows then that our understanding and our concepts must also develop in a similar manner. Conceptually, we must be clear on two points: First, we must not separate "the fundamental way out" from "the problem's fundamental solution" and set them against each other. Ultimately relying on S&T to solve farm problems means, in effect, applying all the achievements of science and technology to promote the growth of agricultural production. Second, being unable to expand the scope of what is included in mechanization without restrictions is not only insufficiently precise, it also creates conceptual ambiguities among the disciplines. S&T-developed agriculture in no way negates or weakens the importance of farm mechanization. It represents a somewhat broader application of science and technology to agriculture. Ultimately relying on S&T to solve agricultural problems includes farm mechanization.

Second, evaluating farm mechanization. How are we, in effect, to view the many years we have managed and applied farm mechanization? In the first place, I think that implementing farm mechanization for more than 40 years now and convening the Third National Conference on Farm Mechanization for its development have been of major significance and have had a positive effect on its history in China. First, there was the effect of its start-up. Even the concept of farm mechanization was unclear during its implementation then. The majority of peasants were using hand tools. Technical know-how was shallow, and acceptance of new things slow. Mechanization broadened the outlook of the peasants and injected new elements in their thinking. Second, there was the support and promotion that was provided to the growth of farm production. Farm mechanization had a major effect, especially in the vast reclaimed areas and on the plains and in opening up the Sanjiang Plain in the

Northeast and in other large regions. If China had not gradually instituted large-scale farm mechanization, the Sanjiang Plain would still be a barren wasteland. Solving the problem of deep plowing had a positive effect on solving the problem of not losing farming time. Third, there was the link to irrigation facilities and the important role they both played. There was no way to solve the problem of drought and soil salinization that was then threatening the plains of North China. We finally relied on drilling wells and water diversion for irrigation. Drilling wells, pumping water, and irrigation were all effects of mechanization. Without the necessary mechanization equipment, the irrigation installations alone could not have worked. Fourth, growth of the farm machinery industry, the agricultural chemicals industry, and construction of a rural electric power system were all promoted. Farm mechanization gave a huge push to these activities. In the early fifties, China did not have a tractor factory. The Soviet Union then aided in building Luoyang Tractor Factory No. 1. Following the Second National Conference on Farm Mechanization, a site was designated in Hubei for a walking tractor factory. The farm machinery industry now has a fairly large production capacity. At that time, chemical fertilizers were also included within the scope of farm mechanization. Every county in the country built a chemical fertilizer plant. Enthusiasm ran high. Some were successful right off, and others after they had made renovations. Very few were unsuccessful. A number of these small plants built at that time are still an influence to be reckoned with in supplying domestic chemical fertilizer. Fifth, there was a heightening of economic and technical levels in the rural areas and among the peasantry. This was accomplished by visits to farm mechanization sites, training, and popularizations and as a result of every county setting up farm machinery manufacturing and repair shops. At present, these shops constitute the starting point and the basic strength of much of rural industry. I think that farm mechanization has been a heroic feat. Its shortcoming has been the undue haste with which it has been carried out and the imposition of time limits. What Chairman Mao said about striving to basically complete it within the Fourth and Fifth Five-Year Plans was taken too literally and too close of track was kept on how long it was taking. There was some impetuosity and some failure to act realistically. A second shortcoming was its stereotypical approach and mutual faultfinding. It suffered from overgeneralization and trying to influence those already influenced. It did not properly suit measures to local conditions. It did not provide proper guidance to the different areas, nor was its methods practical and realistic. Although repeatedly stressing these things, they were not properly implemented. Another problem was only paying attention to quantities of farm machinery and their areas of operation. Attention to maintenance, upkeep, management, and parts was lacking. In addition, there was a lack of experience in setting up suitable operational mechanisms for farm machinery with respect to political measures. For a long time, there was no self-expansion and no favorable cycle of economic activity. Looking back from our present

vantage point, we see that there were shortcomings. However, while we cannot deny the history of people's struggle to implement farm mechanization, even less should we now and in the future deny that farm mechanization should be practical and realistic. It represents one of the grand heroic feats in the building of China.

To sum up, in managing farm machinery work, we must work hard to exercise a positive role by adapting to the circumstances of agriculture and to the requirements and needs of agricultural growth and to those of national economic growth as well. Farm mechanization has truly run into some new situations with the advent of the output-related system of contracted responsibility. There is no denying that, in the course of a change this large, we can only overcome the shortcomings of everyone eating from the same big pot and egalitarianism by taking full advantage of certain influences generated by farm mechanization at a larger scale of production. The most prominent instance of this occurred during the two years following the 3d Plenary Session of the 11th Central Committee. I have seen peasants at rural fairs selling wheels, engines, oil pumps, and large farm tools because they had taken the machinery apart and dispersed it. However, this sort of thing is not common and is quickly taken care of. From now on, we have to consider linking growth of farm mechanization with S&T developed agriculture and with growth of commodity production. Energy projects, transport, and initial processing of agricultural sideline products represent several especially essential aspects of rural economic growth. Management of farm machinery must gradually shift from administrative and technical management to technical and economic management. In the past, we managed distribution and prioritized usage. From now on, we must manage the technology from beginning to end, while taking into consideration economic management.

Several Views on the Future Management of Farm Machinery

From now on, the overall targets and tasks of managing farm machinery call for improving agricultural production and developing technical standards and efficiency and improving economic results by bringing into play proper management and proper use of various types of farm machinery equipment. In the past, labor was counted as cheap. It was unprofitable to use farm machinery. This was the situation then. Then it was egalitarianism and indiscriminate transfer of resources. When the order was given, a huge force of men would move forward to do battle. It is not the same now. Recently when we were in the Beijing suburbs taking part in labor, my Beijing comrades did an accounting for me that showed, because of increased labor costs, using machinery to dig trenches would be much cheaper than using workers. Of course, this was the Beijing area. It could be a different situation in the outlying regions, and this must be specifically analyzed. I believe there are many jobs where using machinery is more advantageous than using manual labor. There are also jobs which are difficult to accomplish with manpower, and machines

have to be used. Last summer in Shandong Province an abundant wheat harvest was in the offing, but when it came time to start bringing it in, it was raining throughout the province. Jiaodong Prefecture has a strong economy with a full inventory of farm machinery. By using these machines to bring in the crop after it had dried, the entire harvest was done within three to five days; whereas Heze and Liaocheng prefectures lack this equipment, were delayed, and as a result, had large losses. This means that having this equipment makes a tremendous difference. No matter how many men might be mobilized, they could not have taken care of the problem. At the same time, the use of farm machinery effectively improves working conditions. Thus, it can be said that farm mechanization is well worth implementing and that doing a good job of managing farm machinery is vitally important. I have several thoughts on how to do a good job of managing farm machinery.

1. Society and the peasantry will have a new understanding of farm machinery if we restore the respect for it we once had through the exercise of our subjective initiative and make full use of what we presently have on hand.

Having everyone understand how truly essential farm machinery is will increase investment in it and promote its growth. If we are to increase and renovate our equipment, we have to change our past approach of solely relying on state investment for mechanization. The old approach of not buying a piece of equipment unless the state pays for it will not work. Areas whose collective economies are strong are now beginning to want to mechanize. For example, drying equipment is in great demand in Jilin because people know that, if after six months of hard work, their harvest mildews and rots, their hard work will have been for naught. Following growth of agricultural production, demand for farm mechanization emerges automatically. Under these kind of circumstances, we have to develop on the basis of our internal strengths. What is important is that we make full use of farm machinery. It can create value, alleviate the intensity of labor, and solve a series of production difficulties which manpower cannot resolve or which would not be feasible to resolve with manpower. In this way, we can restore respect for farm machinery.

2. In managing farm machinery, we have to be good at coordinating with other quarters to exploit the coordinated functions and effects of mechanization.

Farm machinery itself is multifunctional, and the scale of its production is relatively large. Relying only on farm machinery departments to exploit mechanization's comprehensive functions and effects will not work. We definitely must coordinate with other quarters. First, we have to coordinate with overall agricultural development and farmland capital construction. We are now investing several 10 billions in overall agricultural development in one year. Solely relying on manpower to do this is out of the question. To develop 300,000 mu of paddy in Yingkou and Dawa counties in Liaoning, it was necessary to build a protective tidal embankment. By bringing

in 80 tractors, the work was quickly completed. Overall agricultural development is a long-term, arduous task. It calls for using farm machinery for ground leveling, deep plowing, building of water conservancy projects, and digging large-scale irrigation ditches. Farm machinery is not only used for cropland work. We also have to make active use of it in agricultural development work. Second, we have to coordinate with irrigation networks. Farm mechanization has always been inseparable from water conservancy. Water conservancy construction and irrigation both need machinery to be accomplished. However, after irrigation, because compressed surfaces cause the soil to harden, deep plowing is needed to ensure the next season's harvest. To do this requires farm machinery. Third, we have to coordinate with S&T developed agriculture. With S&T developed agriculture now flourishing and in full swing, many quarters need the services of farm mechanization. When this session of the conference was convened in Shandong, I visited Shouguang County. That county's use of large awnings for vegetables has developed rapidly and given rise to two industries. One is the manufacture of bags, and the other, the sale of bamboo poles, which are used for large awnings. Households which specialize in their sale travel south to purchase the poles and return to sell them to the households specializing in vegetables. In addition, there are households specializing in transportation and those specializing in making grass screens. Comrades of mine who manage farm machinery are not just watching from the sidelines during the huge upsurge in S&T developed agriculture; nor are they complacent and isolated from the rest of the world. They make full use of farm mechanization by using machinery wherever they can. Fourth, we have to coordinate with commodity circulation. This is also an advantage to us. Using tractors for field transport cannot be faulted. Of course, using them for long-distance transport is another matter. Some say our diesel oil is all used for transport. This is not the case. In fact, most parity-priced diesel oil is used for farmland work. Diesel oil used for transport is mainly negotiated-price fuel. Some comrades have thought of the good idea of developing gasoline-fueled vehicles for transport. It is a good approach, but there are certain difficulties and a length of time is needed. Moreover, tractors, especially walking tractors, are essential to field transport. The public highway system will in the future extend to the rural areas, and tractors will still be on the highways. Field transport is one of the overall functions of tractors in agricultural production. Transport is not the only aspect of farm mechanization essential to commodity circulation. There are others as well. Fifth, we have to coordinate with the many aspects of the rural economy to form an all-points capability for providing vital equipment services. Peasants engaged in production are now finding it easier because we are perfecting the output-related system of contract responsibility for rural households, consolidating the two-tiered management system, increasing the strength of the collective economy, instituting a system of socialized services, the content of which is quite extensive, and creating uniform seeds,

irrigation, cultivation and harvesting, and crop protection. The two-tiered management system is slowly being formed through a uniform organization of materials supplied before production and a uniform organization of sales after production. This very important subject was studied by the National Conference on the Exchange of Rural Economic Work Experiences. It constitutes a key point in our future deepening of reform. The thinking of the whole country is unanimous on this. In the process of developing and forming a system of socialized services, the scope and arena for utilizing farm machinery has become more and more extensive. The coordination with the various quarters we have been discussing above basically consists of coordinating with the local needs of agriculture and with local basic conditions. We do not want to redefine the scope of farm mechanization and impose time limits on it. The scope of farm mechanization and the time limits on it cannot be accurately defined using a "vague concept." Things are constantly changing and cannot be absolutely delineated. Originally, farm mechanization did not include drying. At the time, there was no electricity, a shortage of kerosene, and automobiles still carried coal gas containers. It was basically impossible to use coal and electric dryers to harvest wheat. However, now they are essential. We definitely have to coordinate with the various quarters. We should take part in the entire great upsurge of rural reform and development of agricultural production by extending ourselves more and listening a little better, by using the weapons we control, and by taking advantage of our strong points. To exploit all the functions of farm machinery management, there must be coordination in farm machinery utilization, maintenance, management, services, administration, and technical consulting. Farm machinery stations constitute a relatively large part of our agricultural services system. Breeding and screening improved varieties, irrigating farmland, cultivation, and crop protection all require farm machinery. We must not extend services outside of agricultural technology, nor can we stand in opposition or impede each other. We have to coordinate. Although the extent of farm machinery services is broad, it cannot include the entire range of agricultural services. Through coordination, we can realize our goal of properly managing farm machinery, strengthening our services, and expanding mechanization. Only by broadening our way of thinking and blending farm machinery in with the various aspects of agricultural production, will farm mechanization be able to grow again. The operation and management of farm machinery must also take this approach. We cannot rely solely on the state to finance machinery purchases. If we do, it will not be used efficiently. Since no allowance is made for depreciation, the machinery is reported as inoperable and the state asked to replace it. It is difficult to maintain such a system in any industry or facility. It is not a permanent solution. Farm machinery management must gradually work toward technical, operational, and managerial changes and toward technical guidance, consultation, and services.

Current Work

There are probably three major issues. First is the question of farm machinery renovation. Comrades who are in charge of farm machinery are quite concerned about its ageing. This is indeed a major problem. Most of it, especially the larger pieces, was purchased in the sixties. It now has exceeded its serviceable life and has to be replaced. It is not only farm machinery, fishing machinery also needs replacement. We have to consider this issue from two aspects. One is to achieve better results by making full use of farm machinery and building a system in which there would be in-house replacement of small pieces of equipment. Loans or other sources of funds would have to be sought for middle- and large-sized pieces, including an effort made to resolve the renovation issue through agricultural investments. Everyone should discuss what type of measures we should take and how we should take advantage of the enthusiasm and subjective initiative of various quarters to create a favorable cycle of renovation from now on. The state must also lend its support to this. The second is the fuel-oil issue. Diesel oil is the lifeblood of farm machinery. Without it, the machinery is of no use. In recent years, the power of farm machinery has rapidly been increased. However, the supply of diesel oil has not increased. The average amount of oil supplied per kilowatt has steadily declined, and this has affected the full exploitation of farm machinery. We should do the best we can to increase somewhat the amount of diesel oil supplied by departments in charge. At the same time, we must also properly manage the limited amount of diesel oil used in agriculture, make sure it is used in agricultural production, be attentive to economies, and reduce waste. The third is the issue of farm machinery administration and management. Everyone agrees that the circumstances of each locality are different. Specific measures must be suited to specific local conditions. However, the major principles are the same. To properly manage farm machinery, it must be fully utilized and a capability created for self-development and self-renovation, which will both contribute to agricultural production and create conditions for our own subsistence and development.

Journal Examines Agricultural Funding

HK3008001691 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 91 pp 54-61

[Article by the State Planning Commission's Economics Institute Rural Study Office, researched by Ma Xiaohu (7456 2556 3109), Zhou Haichun (0719 3189 2504), Wu Yan (0702 1484), Wang Weinong (3769 3634 6593), written by Zhou Haichun (0719 3189 2504), edited by Lin Li (2651 4539): "Agricultural Funds Movement and Agricultural Development"—condensed version of an 18,000-character research report]

[Text] In the 1990's, as our country's industrialization moves into the middle stage, the demand for agricultural products will not only grow swiftly on the quantitative

level but will also see an increase on the qualitative level. However, the situation of agricultural product supply is such that, on the one hand, the mode whereby agricultural growth relies on a large input of labor is difficult to continue and, on the other hand, even if this mode is continued, the productivity so released will be far from capable of meeting the needs of the middle stage of industrialization. Thus, an agricultural growth mode characterized by a large-volume input of modern factors must be included on the agenda of national economic development strategies. This will, in turn, rely on the input of a large volume of funds. In a certain sense, it can be said that the agricultural funds problem is a strategic problem which will determine whether or not the coordinated development between agriculture and the national economy can be guaranteed in the 1990's. It is of major importance for us to analyze the flow patterns of our country's agricultural funds and to explore possible avenues for balancing the supply of and demand for agricultural funds in the 1990's.

Traditional Agricultural Funds Flow and Agricultural Development

After the establishment of the PRC, in order to swiftly strengthen our country's economic power and break down the international economic blockade, after a short recovery period our country began to engage in large-scale industrialization in 1953. At that time, our country's economic base was very weak and the development of agriculture, which is the mother of industrialization, was particularly insufficient. This was notably manifested in the extremely poor labor productivity in agriculture. The countries which industrialized first had, at the beginning of industrialization, a ratio of 0.6 or above between agricultural labor productivity and nonagricultural labor productivity, while in 1952 in our country this figure was only 0.21. This situation produced a specific characteristic in the early part of our country's industrialization: If we wanted agriculture to smoothly support the course of industrialization, there was a need to input a large volume of funds to swiftly raise agricultural productivity. However, carrying out industrialization smoothly also required the centralization of funds in nonagricultural industry. This particular contradiction in the early stage of industrialization forced us to choose a quite specific agricultural funds flow mechanism. The central components of this mechanism can be summed up as follows: Through the policy of compulsory purchase of agricultural products at low prices, the majority of agricultural funds were centralized in the hands of the state and the state, in accordance with the agricultural products supply-demand situation, returned very limited amounts of funds. It also used administrative measures to force peasants to put most of their labor input into agricultural production, to compensate for the shrinkage in agriculture resulting from the insufficient input of funds. This replacement of funds by labor was mainly manifested in two aspects: 1) through engaging in large-scale labor accumulation, mobilizing and organizing a great amount of labor from the villages to engage in

agricultural field capital construction; 2) in production, using labor to replace material input and engaging in intensive farming.

The success of this agricultural funds flow mechanism, in which the state played the main part and a large input of labor by peasants was used to compensate for the outflow of agricultural funds, was that it resolved the dilemma whereby agricultural development was insufficient and there was a need to engage in industrialization, by centralizing the large volume of funds needed by nonagricultural industrial development. Also, to a certain degree, it avoided a shrinkage in agriculture which could have occurred as a result of this. Under the conditions whereby a large volume of agricultural funds flowed into nonagricultural industries, the portion of funds the state returned was centrally placed for building fields and water resources and organizing and propagating agricultural science and technology research. This obviously improved the agricultural production conditions, the level of agricultural science and technology was clearly raised and, to quite a great degree, compensated for the insufficiency of investment by the peasants themselves. The agricultural-use means of production which were supplied at low prices provided, in a situation where funds were extremely limited, a guarantee for the material input required by agriculture. Further, a series of administrative measures forced the peasants to put the majority of their labor into agriculture and this further compensated for the insufficiency of investment input. It was these measures which enabled agriculture, on its very weak base, to both transfer funds and guarantee the agricultural products needed by the process of industrialization. When we look at the phenomenon which occurred in some other countries which began industrializing after the war, where industrial development and increased starvation existed side by side, then the choice taken by our country in terms of agricultural funds flow undoubtedly allowed great achievements to be realized.

At the same time as affirming the achievements realized by this mechanism, we must also recognize that this brought many problems for the further development of agriculture. First, this mechanism resulted in agriculture seriously lacking a capacity for self-accumulation and self-development. The input of state funds could only resolve the common problems faced by large-scale agricultural producers. However, due to a lack of funds the specific problems faced by different regions and different producers could not be resolved. Thus, the development of agriculture was inevitably restricted. Second, this mechanism relied on a series of noneconomic measures to force peasants to engage in production, leading to the peasants' enthusiasm for labor lessening and the rise in labor productivity was very slow. Third, this mechanism relied on the input of a large volume of labor to make up for the insufficiency of funds. While such a replacement is possible to a certain degree on both the technological and economic levels, it is not an unlimited method. As time goes by, the cost of such replacement

becomes higher and higher and finally it will come to a stage where marginal benefits are zero or even negative. Then, unless a new growth mode is promoted, agricultural production will inevitably fall into a fluctuating situation. In the first 30 years after the establishment of the PRC, the long-term development of agricultural production was slow and even the problems of feeding and clothing everyone could not be solved. The reasons for this are of course diverse but the various problems with the traditional agricultural funds flow mechanism must be seen as an important factor in this. It was as a result of the existence of such problems that the agricultural revolution at the end of the 1970's was touched off.

Agricultural Funds Flow and Agricultural Development Since Initiation of Reforms

The Third Plenary Session of the 11th CPC Central Committee set out the basic policy of carrying out readjustment and reform of the entire national economy. In respect of agricultural funds, it abolished the practice of shifting a large volume of funds out of agriculture and formulated an agricultural funds policy in which the rate of outflow of agricultural funds was reduced and there was an increase in agricultural investment. To this end a series of measures were adopted: 1) The purchase prices for agricultural products were greatly increased and free market trade was reestablished. After fulfilling tasks set by state purchasing, the peasants were allowed to trade their surplus products at free prices in the markets. 2) In the rural areas, output-linked contracted responsibility systems based on family operations were widely implemented. This greatly motivated the enthusiasm of the peasants for production, agricultural production clearly increased and agricultural production costs fell, which indirectly raised the prices paid for agricultural products. 3) The state relaxed the administrative restrictions on the peasants. The measures included: the gradual reduction and final abolition in 1985 of mandatory planned purchase of agricultural products; encouraging peasants to develop nonagricultural industries; and encouraging peasants, under the conditions of respecting state laws and resolving their own grain needs, to enter the cities to engage in tertiary industry. 4) The state increased its investment in agriculture by a large margin. In 1979, the Fourth Plenary Session of the 11th CPC Central Committee passed the "CPC Central Committee Decision on Various Questions in Accelerating Agricultural Development" in which it was stipulated: "For the next three to five years, the state investment in agriculture as a proportion of overall capital construction investment will be gradually raised to about 18 percent. The agricultural operating expenses and expenditure for supporting communes and teams, as a proportion of total state expenditure, will gradually be raised to about 8 percent. Local financial income should mainly be used in agriculture and agricultural industries."

These measures produced a series of positive results. First, changes occurred in the investment entity structure. As peasants households changed from purely consumption units into production units they, together with

the new collective economic organizations formed after the reforms, jointly shouldered the important task of agricultural funds investment. Further, the state also encouraged agricultural product processing industries and peasant joint operators to invest in building fixed raw materials supply bases. In this way, the agricultural investment entity structure was changed from the original dual structure, comprising the state and the collectives, to a plural investment entity structure comprising the state, collectives, peasants, and enterprises. Second, the outflow of agricultural funds obviously decreased. According to estimates, from 1952 to 1978, the value of agricultural products was on average 45.9 percent higher than the price. That is, an amount equivalent to 45.9 percent of the price obtained by peasants flowed into the hands of the state. This transfer rate grew to 46.1 percent in the period 1960 to 1965 during the national economic difficulties and the period of readjustment. By the period 1979 to 1989, the transfer rate had fallen to 28.9 percent, with the lowest figure of 23.9 percent being recorded in 1984, while the highest figure of 42.6 percent was recorded in 1979. We can thus see that since implementation of the reforms, there has been a sharp decline in the proportion of agricultural funds which are transferred. Finally, the decline in the agricultural funds transfer rate meant that the proportion of income obtained by the peasants per unit of agricultural product increased. Further, the implementation of the output-linked contracted responsibility system and the removal of the administrative restrictions meant that agricultural product output volume saw a swift increase. The joint effect of these two factors was that peasant incomes saw a swift increase. In 1978, the per capita net income of peasants was only 133.57 yuan. Subsequently, there was a sustained increase in per capita net income and by 1989 it had reached 601.5 yuan, an average annual increase of 14.7 percent. In 1978, the savings of peasant households totalled 5.57 billion yuan, a household average of 32.1 yuan. By 1989, the total amount of savings from peasant households had soared to 141.21 billion yuan, a per-household average of 656.7 yuan. The rapid growth in peasant income created fine conditions for increasing investment in agriculture.

However, the readjustment of state agricultural funds policies provided some negative results which had not been anticipated. First, at the same time as the rapid increase in the income of peasants from agriculture, there was a marked decline in the funds invested in agriculture by both collectives and peasant households. Let us first look at the investment in fixed assets by collective economic organizations in the rural areas. In 1981, the total value of fixed asset investment by collective economic organizations in the rural areas was 8.366 billion yuan. Of this, 3.38 billion yuan, or 40.4 percent of total investment, was put into agriculture. Subsequently, this proportion gradually declined and by 1982 it was 33.5 percent. In 1983 and subsequently, not only did the proportion decline but the absolute volume also saw negative growth. By 1986, the investment in agricultural fixed assets by collective economic organizations in the

rural areas was only 38 percent of that in 1982, with agricultural investment only constituting 8.1 percent of total fixed assets investment in that year. After 1987, both the amount of investment and the proportion of agricultural investment rose but at a quite slow speed. Even after the state took the decision in 1988 to readjust the economy and strengthen agriculture, there was no marked increase in the investment which collective economic organizations in the rural areas used in agriculture, with a growth of only 0.9 percent in 1988 and 2.1 percent in 1989. The proportion of agricultural investment was 9.4 percent in 1988 and 11.4 percent in 1989. Although we lack complete statistical data on the flow volume of the funds peasant households used in agricultural fixed asset investment, if we examine the situation from the original value of fixed assets possessed by every 100 peasant households, we see that there was a gradual decline in the proportion constituted by agricultural fixed assets. In 1984, this proportion was 62.3 percent, by 1985 it had fallen to 53.1 percent, but by 1989 there had been a rebound, if only to 53.7 percent.

Second, and more seriously, the state investment in agriculture not only failed to grow but actually saw an annual decline. The decline of state investment in agriculture was mainly manifested in four aspects. First, the financial expenditure used for agricultural operating expenses and supporting the people's communes in rural areas did not reach the initially envisaged 8 percent, actually seeing a gradual decline. In 1979, the figure was 7.1 percent and in 1987 it was 5.5 percent. In 1988 there was a rebound but, in 1989, the figure was only 6.6 percent, still less than the level in 1979. Second, there was a great decline in agricultural capital construction investment and the figure grew increasingly distant from the envisaged agricultural investment proportion of 18 percent. In 1979, agricultural capital construction investment totalled 6.241 billion yuan, giving a figure of 12.6 percent. Subsequently, both the absolute and proportional figures both dropped, with the low point being reached in 1981, when the absolute value was 2.415 billion yuan and the proportional figure was 7.3 percent. After this, there was a rebound, but in 1989 the figure was only 5.065 billion yuan, giving a proportion of 8.3 percent. Third, there was a sharp decline in investment in agricultural industries. During the Fifth Five-Year Plan, the investment in agricultural industries was 10.17 billion yuan but, by the Sixth Five-Year Plan, this had fallen to 4.48 billion yuan. The proportion that investment in agricultural industries constituted in overall industrial investment was 8.7 percent during the Fifth Five-Year Plan and 2.9 percent during the Sixth Five-Year Plan. In 1987, it fell further to 1.9 percent. Fourth, there was a continual decline in the proportion of agricultural credit funds input. In 1979, the national agricultural credit balance constituted 30.7 percent of the rural credit balance but, by 1987, this proportion had dropped to 23.5 percent.

In brief, since initiation of the reforms, the readjustment of state policy in respect of agricultural funds has realized a marked reduction in the outflow of agricultural

funds and a plural investment entity structure has been formed. However, the new investment entity structure has not only failed to increase investment in agriculture but has also resulted in an overall decline in funds invested in agriculture by the state, collectives, and peasant households. The result of this has been: 1) Basic agricultural facilities have become old and worn-out and agricultural production conditions have deteriorated. 2) The agricultural science and technology service system which emerged and matured with long-term state financial support, and which realized outstanding achievements in promoting the growth of our country's agriculture, had difficulty in developing its work because of a serious lack of funds. 3) The level of agricultural intensification dropped and this was centrally manifested in there not being a clear increase in the per-unit output yield of agricultural products and, in some cases, there was a decline. The combined effect of the abovementioned results was one of the major reasons our country's agriculture entered a situation of fluctuation.

The factors leading to this situation were diverse but, as far as the decline in state funds investment was concerned, the following reasons were most important:

1. Mistakes on the subjective understanding level. At the beginning of the reforms, following the great motivation of the production enthusiasm of the peasants through the relaxing of policies, agricultural production saw high-speed growth not experienced before and the difficult situation of agriculture thus saw a change. This led to a series of mistaken understandings: 1) It was not recognized that this high-speed growth was achieved on the material base accumulated through over 20 years of arduous construction and through the policy readjustment which had unleashed the production enthusiasm of the laborers which had been restrained for a long period. Rather, they thought that policies could replace material input and that if policies were relaxed there was no need to increase investment to achieve development of agriculture. 2) The high-speed growth of agriculture together with the poor circulation channels which caused temporary difficulties in selling agricultural products meant that some people assessed the agricultural situation wrongly, holding that China's agricultural problems had already been solved and that, in future, efforts in agriculture could be relaxed and strengths could be centralized in developing nonagricultural industry. 3) There was an overly high estimation of peasants' income and it was thought that peasants already had the capacity to resolve the agricultural funds investment problem. There were attempts to completely shift the task of increasing agricultural investment onto the peasants.

2. The existing economic structure was not advantageous to the state investing funds in agriculture. A basic characteristic of the existing economic structure was that all levels of government in the country directly intervened in nonagricultural industrial operations. Enterprises belonged to governments and the governments not only obtained tax income from the nonagricultural industries but also obtained operational profits. The

situation of nonagricultural operations was thus closely linked with government interests. On the other hand, in agriculture, although there were some state operations, the proportions these constituted were very small and the majority of agricultural operations were in the hands of the peasants. Apart from in terms of a little tax income, the state did not suffer losses if losses were incurred in agricultural operations and, likewise, did not directly obtain benefit by any increase in profits. In this way, as far as the various levels of government were concerned, agriculture was something completely external and it was only when agricultural development affected the development of their "own" nonagricultural industries, that they, in charity, gave support to agriculture. Then, when the agricultural situation improved slightly, the state could naturally reduce its charity and this led to a decline in agricultural investment.

3. The incomplete nature of the reform of the agricultural funds circulation process meant that a break appeared in agricultural funds movement and the state financial administration, in order to compensate for this break, assumed an increasingly heavy burden. After 1979, the state greatly increased the purchase prices for agricultural products but did not raise the sales prices for agricultural products correspondingly. The purchase-sales price differential thus became increasingly small, or even inverted, and the state financial administration had to make up the deficiencies. The result of this has been that the agricultural price subsidies provided by the state have seen a straight-line increase. In 1978, state subsidies for grain, cotton, and oil were 1.114 billion yuan. By 1989, these subsidies, together with the newly-added meat subsidy, had risen to 30 billion yuan. It can be imagined that if the state did not have to meet these heavy price subsidies, the source of funds investment for agriculture could be guaranteed.

4. The uncoordinated nature of the overall reform of the investment structure is the most important reason for the decline in state investment in agriculture. After 1984, following the formation of a new situation in rural investment, a reform of both the form and content of the overall social investment structure was carried out. The core of the reform was the gradual reduction of central interference in investment decisionmaking, the expansion of the decisionmaking jurisdictions of localities and other investment entities, the drawing in of the market mechanism into the investment sphere, and the stressing of investment efficiency. This reform was clearly marked by the institution of "cooking in separate kitchens" on the financial administration level. However, this reform ignored an important precondition and that is that our country has not yet formed a complete market mechanism. In a situation where price parity is confused and price signals unreal, allowing the various investment entities to seek microeconomic results through investment had to be subject to the guidance of a fixed price system. This reduced funds investment in agriculture, an industry in which price parity is very low and the raising of productivity is slowest. In 1988, although the state

had taken the decision to strengthen agriculture, as far as the local governments were concerned, because the inertia of stock formed by the high-speed development of nonagricultural industry during the previous few years had meant that the local governments could not expend much in the way of funds, together with the fact that the industrial characteristics and interests structure of agriculture had not changed, the local governments did not have a great capacity and were also unwilling to quickly increase agricultural investment. As far as the state was concerned, because it was difficult to change the situation of dispersed financial strengths within a short period, together with the fact that in the previous few years the local governments had developed processing industries to too great a degree, the state also had to make up serious deficiencies in basic industrial development. Thus, the funds it could invest in agriculture were extremely limited. This produced the situation after 1988 where the revival of state investment in agriculture was very slow.

Why was it that, while the peasants' income from agriculture greatly increased, there was a decline in the funds invested in agriculture? The reasons are diverse.

1. The comparative benefits of agriculture were quite low. This situation was created by factors in two areas. On the one hand, after 1979, the great increase in agricultural product prices was just to compensate for the excessively low agricultural product purchase prices of the past. This compensation far from brought agricultural product prices into accord with their value. After 1984, following the reform of the prices of agricultural-use means of production, the extra cost of the agricultural-use means of production which had to be met by the peasants, exceeded the rise in agricultural product purchase prices. This meant that the disparity between agricultural product prices and their values which had previously been reduced, was again expanded. On the other hand, prior to the reforms, because of the restrictions of the various administrative measures, the peasants only choice in terms of an industry was agriculture, opportunity costs approached zero and therefore there was no problem of comparative interests. Thus, the deviation between agricultural product prices and value was acceptable. After the reforms began, following the removal of the administrative restrictions, the opportunity costs of agriculture rose swiftly. At that time, even though there was a little deviation between agricultural product prices and value, the peasant households who had investment autonomy, proceeded from the goal of maximization of profits and put their funds into industries in which the product price/product value relationship was to their advantage.

2. The overall nature of agricultural funds needs and the dispersed nature of the peasant households funds supply also influenced, to a certain degree, agricultural funds investment by peasants. The construction of basic agricultural facilities such as dams, canals, and shelter forest belts extends over a very wide range and there is no way the astronomical amounts needed for such projects can

be met by the new collective organizations or by peasant households. Further, the slow rate of development of a rural funds market means that it is extremely difficult to collect together the funds of peasants to invest in basic agricultural facilities.

3. The long-term nature of agricultural investment and the haziness of property rights relationships also affects the investment of funds in agriculture by peasant households. We all know that agricultural investment, especially for building basic facilities, enriching land, and increasing soil fertility is something which only has to be done once and then benefits will be long forthcoming. However, because of the output-linked contracts, the separation of the two rights, and the lack at present of an effective method for safeguarding the investment benefits of peasant households, the enthusiasm of the peasants household for agricultural investment has declined.

4. The scale of land management is too small. Because the family output-linked contracted responsibility system was in accord with the characteristics of agricultural production, it certainly greatly motivated the production enthusiasm of the peasants. However, today, this contract method whereby every family has a contract and every household plants fields, has resulted in the scale of land management being too small. Thus, even if more funds are invested, the income will be very limited. Therefore, the peasant households only see their land as a means for maintaining their own livelihood and place their hopes for increased income on nonagricultural industry. This has resulted in a large volume of funds flowing into nonagricultural industries, while funds invested in agriculture have naturally declined.

Ideas for Deepening Agricultural Funds Investment Mechanism Reform

At present, both the overall national economy and agriculture itself have entered a crucial period which requires that we thoroughly discard the traditional agricultural funds flow mode and increase funds investment in agriculture. Only in this way will we be able to promote the development of the overall national economy and of agriculture itself.

Looking from the angle of the overall national economy, only by increasing investment in agriculture and promoting the development of agriculture will we be able to guide the national economy to escape from the whirlpool of market weakness. At present, the problem in the national economy which gives people the greatest headache is that of market weakness. Many comrades believe that the cause of market weakness is the industrial structure lagging behind the demand structure. This viewpoint can only be said to be partially correct. We believe that the current market weakness is essentially the inevitable result of the long-term implementation of a policy which stresses the urban areas, and looks lightly on the rural areas, and which is centered on the cities. The basic characteristic of this policy is that it uses a large volume of transferred agricultural funds to support

the isolated development of the urban economies, leading to where the industrial structure is determined by the urban demand structure. Today, the industrial structure has now developed to where it has, to a serious degree, a lead over the rural demand structure. However, it lags behind the urban demand structure and this inevitably brings a situation of market weakness. Today, when it is said that the market for commodities is tending towards saturation, in the vast majority of cases it is only the urban markets which are saturated. The rural areas are still far from saturated. However, as we have long implemented a policy which stresses the urban areas and looks lightly on the rural areas, we have seriously suppressed the demand for these commodities in the broad rural areas market. For example, the policy of transferring agricultural funds which has been in place has meant that, in monetary terms, the income of the urban dwellers has long been two to three times that of the peasants. If we also consider differences in purchasing power, the disparity is even wider. The result of such a disparity is, first, that the effective demand of the peasants is insufficient and, second, that the basic social facilities of the rural areas are very poor. This has led to where the rural areas even lack the conditions for using many of the commodities produced for the cities and this in turn means that demand is very slight. On the one hand, urban demand is really saturated while, on the other hand, in the rural areas there are markets but no demand, or demand with no commodities to meet it. This is the essential nature of the current market weakness.

If the above viewpoint is tenable, then in our current economic readjustment we face a choice: Should we continue to implement a policy whereby we only consider the cities and readjust the industrial structure to accord with urban demands as they rise to higher levels? Or should we change the existing policy and, at the same time as we appropriately restrain urban demand, bring the rural areas into the entire national economic system, place the rural areas on a par with the urban areas, and readjust the industrial structure in accordance with the needs of both the urban and rural areas? It can be seen that there is only one rational choice. We have to redesign our urban-rural policies and use the development of the rural economy to spur the overall national economy to free itself from the quagmire of weakness. This is because only when the urban and the rural areas develop together can there be real development and can there be development which has real staying power. Only through such a choice will we be able to avoid injurious readjustment of the industrial structure. Thus, if we want to ensure that the national economy can escape its difficulties, we must readjust macroeconomic policies and promote the development of the rural economy and, primarily, the development of agriculture.

The development of agriculture is likewise currently in a crucial period. The crucial aspect lies in the fact that the former agricultural growth mode, characterized by the input of a large volume of labor, has already reached its

critical point and if we want agriculture to see further development, we must establish a modern agricultural growth model characterized by the input of a large volume of funds. The facts show extremely clearly that the development of agriculture has already reached a stage where the growth or decline of funds investment has become the factor deciding the growth or decline of agriculture. In order to further confirm this analysis, we have carried out a Douglas function regression analysis of agricultural labor input, material input, and gross agricultural output value for the two periods 1952-1978 and 1979-1989. The results are presented in the table below.

Regression Analysis of Agricultural Gross Output Value and Labor and Material Input

Period		1952-1978	1979-1989
Equation		AGNP= 0.1268 K ^{0.62} L ^{0.54}	AGNP= K ^{0.86} L ^{0.21}
Coefficient T Tests	Constant Term	-1.895	insignificant
	Labor Coefficient	3.911	15.775
	Material Coefficient	8.135	43.889
Square of correlation equation		0.981	0.996
Equation F test		348.125	2235.64

Note: AGNP is the gross output value of agriculture; K is material consumption; and L is the agricultural labor force.

From the above table, we can see that the contribution of labor to the gross output value of agriculture obviously declined after 1979, as compared to the period before 1978, while the contribution of material input obviously increased. Prior to 1978, for every 1 percent growth in agricultural labor force, the gross agricultural output value grew 0.5 percent. Subsequent to 1979, this figure fell to 0.2 percent, a 60 percent reduction. Prior to 1978, every 1 percent growth in material input brought a 0.6 percent growth in agriculture. After 1979, this contribution grew to 0.85 percent, a rise of 50 percent. In fact, it is only from the second regression that it is possible to see that future agricultural growth will mainly depend on an increase in funds input. This is because for every 10 percent growth in labor input, the gross output value of agriculture will grow only 2 percent, while for every 10 percent growth in funds input, the gross output value will grow 8.5 percent.

Summing up the above, we can see that whether we talk about the healthy development of the overall national economy or the development of agriculture itself, both require increased input of funds into agriculture. How then are we to increase the input of funds into agriculture? From the above analysis of the reasons for the decline in agricultural funds input in the latter half of the

1980's, we can see that regardless of whether we speak of the decline in state investment or the decline in the investment of the peasants' own funds, the reasons lay in the fact that during the process of structural reform, either the old systems had not been changed (as in the case of the joint nature of government and enterprises) or else the transfer from the old system to the new had not been completed (as was the case with the reform of agricultural funds circulation and agricultural property rights relations). This produced a series of contradictions, leading to an overall decline in agricultural funds investment. Thus, if we want to increase the investment of funds in agriculture and promote agricultural development, the only choice is to continue to promote structural reform and put in order an agricultural investment mechanism. Specifically, this will include the following aspects:

1. Promoting the overall reform of the price structure to ensure coordination between price structure reform and the reform of the investment structure. Generally, agriculture and other basic industries are subject to the influence of factors such as the development of natural resources being initially easy and subsequently more difficult and the difficulties involved in technological advance. Thus product costs generally see progressive increase. Meanwhile, processing and manufacturing are influenced by technological progress and management renewal and product costs generally see progressive reductions. In a situation where inflation exists, only if the rise in prices of the products of agriculture and other basic industries is faster than the rise in prices of the products of processing and manufacturing industries will it be possible to maintain the coordinated development of basic industries and processing and manufacturing industries. However, the basic characteristic of our country's price structure is that the prices of the products of agriculture and other basic industries have long been too low, while the prices of the products of processing and manufacturing industries have been obviously too high. Especially since the beginning of the reforms, the basic idea of price readjustment has been to properly manage the prices of the products of basic industries and relax the prices of the products of processing and manufacturing industries. In a situation where total social demand exceeded supply, the relaxed prices of processing and manufacturing products rose swiftly, while the prices of basic products, because they were subject to state management systems, saw a very limited speed of growth. The result of this was that the price structure, which was already deformed, became more deformed. Thus, the various investment entities which had already gained investment autonomy, under the guidance of this deformed price structure proceeded to put their funds into high-price, large-profit processing and manufacturing industries. The result of this was that agriculture, as a basic industry, was subject to very low price parity, had the slowest increase in productivity, and investment was seriously deficient. Thus, if we want to increase the investment of agricultural funds, we must reform the existing price structure. The basic principle is to impose

management on the prices of processing and manufacturing industry products and raise the price of the products of agriculture and other basic industries. In order to avoid giving rise to cost-push inflation, the amount by which basic industry product prices are raised should not exceed the capacity of the processing and manufacturing industries to absorb. The processing and manufacturing industries should also actively promote technological transformation and raise the level of operational management, to increase their capacity to absorb the basic industry product price rises.

2. Reforming the existing financial structure to provide a systems base on which to stabilize state investment in agriculture. Although rationalization of the overall price structure will improve the profitability of agricultural investment, because of the innate patterns of industrialization, the earnings rate of agricultural investment will always be lower than that of nonagricultural industries. Thus, state financial support of agriculture is an indispensable condition for the stable growth of agriculture. However, the existing structure is far from advantageous to having the financial administration bring this role into play.

Seen from experiences around the world, the primary goal of the state financial administration is to maintain, through economic means, the stability of society and not to achieve maximization of profits. However, in our country, the primary function of state financial administration is to directly participate in economic construction and promote economic growth. This has meant that governments at various levels have used the financial administration to seek maximization of profits and socioeconomic stability has been pushed back into second place. The result of this has been that the various levels of financial administration have zealously engaged in building processing and manufacturing enterprises which require little investment and see quick results. Meanwhile, those industries which have long investment cycles and poor investment earnings, but which are of major importance to the long-term socioeconomic stability and which the financial administration should support, such as the basic industries of agriculture and communications, are not given support by the financial administration. Thus, we propose the reform of the existing financial system. The basic suggestion is that the financial administration should not get directly involved in building projects in which profit is the aim. They should not invest in these projects and should not take profits from existing state enterprises. The financial administration should only use taxation income and other financial administration income to engage in undertakings which have the maintenance of socioeconomic stability as their goal. State economic activities which have profit as their goal should be taken on by other specialized organs (such as state asset management bureaus). Such organs will have profit maximization as their goals, will obtain profits from existing state-run enterprises, and will use these profits to realize growth in state assets and promote economic development.

The implementation of such a reform will allow the avoidance of contradictions which often occur between the dual functions and multiple concerns of the financial administration. In this way, the financial administration will be able to collect financial strength to engage in undertakings which safeguard socioeconomic stability so that agriculture, communications, and other basic industries which require financial support will have a stable funds source. Also, we will avoid the past situation whereby, when the agricultural situation saw a slight turn for the better, the financial administration, because of its dual functions and its desire to maximize profits, reduced investment in agriculture. This led to the agricultural situation again affecting socioeconomic stability and it was necessary to again increase funds investment in agriculture. This produced cyclical oscillations.

3. Further promoting agricultural product price reform, especially the reform of sales prices, and clearing out the agricultural funds flow circulation channels. Although reform of the financial system will provide a systems guarantee for increasing agricultural investment by the financial administration, if the existing serious inversion of the purchase and sales prices of agricultural products is not reformed, the financial administration will not have much in the way of funds to use in supporting agriculture. Thus, if we are to increase agricultural funds investment, we must reform the sales prices of agricultural products. The specific ideas are: 1) reducing the number of types of agricultural products sold at cheap prices. It is proposed that for the next several years, we should gradually abolish, except for grain, the system of selling food products cheaply. 2) Reducing, in value terms, the amount of cheap grain subject to unified sale and completely abolishing the supply of cheap grain, except in the case of food grain, readjusting the existing standards for the supply of food grain, and reducing the proportion of cheap grain supply. We should gradually readjust the price of cheap grain supply and gradually achieve a situation where sale price is the same as purchase price, to achieve price rationality. 3) After the sales price of agricultural products is increased, limited subsidies should be provided to residents. The basic principle should be that the growth in residents' income should be equal to, or faster than, the rise in food prices, so that subsidies can be reduced and then abolished. In the opposite situation, the subsidies should be decided in accordance with residents' current consumption structure, so that even if food prices grow more quickly than income, if residents' food consumption is clearly already in the lead, then the subsidies should be reduced or abolished. Recently, the State Council has made some arrangements for this reform and at present the problem is that some difficulties have to be overcome in various areas before this can really be implemented. If this problem is not resolved, the funds which the financial administration will have for investing in agriculture will be extremely limited.

4. Further promoting reform in the rural areas and putting in order a peasant investment mechanism. In the

new agricultural investment structure, the peasants now form an agricultural investment entity. At present, the peasants do have an investment capacity but the problem is how to create a policy environment which will encourage them to put their funds into agriculture. To this end we propose:

A. Using the tax lever to regulate the earnings of different industries in the rural areas. The comparative benefits of agriculture are low and this is a major reason peasants are unwilling to invest in agriculture. The state, at the same time as readjusting the price structure and raising the benefits obtainable from agriculture, should use the tax lever to appropriately reduce the earnings of nonagricultural industries, so that there is coordinated funds input in both agriculture and nonagricultural industries.

B. Promoting the development of an agricultural funds market, to resolve the contradictions between the overall nature of agricultural funds needs and the dispersed nature of peasants funds supply. The key lies in strengthening the financial capacity of the agricultural bank and the rural credit cooperatives, to actively organize savings and issue financial bonds, to collect together the funds dispersed in the hands of peasant households and then invest them in building basic agricultural facilities.

C. Further perfecting the double-level operational system, to resolve the problems of property rights being hazy, the operational scale of land being too small, and peasants being unwilling to invest in agriculture. We propose that the collective, unified-operation entities be the economic entities, taking on the tasks of production, investment, and distribution decisionmaking. Under the unified decisionmaking of the collectives, the peasant households will be relatively independent laboring units taking on the completion of various tasks through contracts. To this end, we should change the existing contract system whereby every family contracts and every household plants fields. On the basis of upholding family operations, in accordance with the operational capacity of contractors, an appropriate amount of land should be contracted to them and operations of scale should be implemented. The peasant households will then, apart from obtaining rewards in accordance with the amount and quantity of labor they put in, also obtain earnings from funds they invest. In this way, it will be possible to avoid the haziness of property rights relations which exists in the current contracting method and the problem of peasants being unwilling to invest.

Grain Price Reform in Hainan

91CE0681A Beijing ZHONGGUO TONGJI XINXI
BAO in Chinese 4 Jul 91 p 1

[Article by Qiu Xiaohua (6726 2556 5478) and Xie Hongguang (6200 7703 0342): "Grain Price Reform in Hainan"]

[Text] As measures were adopted around the nation to raise the selling prices of grain and oil appropriately,

Hainan Province replaced the grain procurement prices as well as the prices paid by township residents for rationed grain with state guidance prices and raised prices as appropriate to bring procurement and selling prices in line with one another. The move took effect on 1 May and had the approval of the State Council. How is the policy working out in practice? What is the response in the various quarters in society? What are the special features of grain price reform in Hainan? Are there lessons the rest of the nation can learn? Armed with these questions, we did a study in Hainan in mid- and late April.

Basic Features of Grain Price Reform Plan

Apart from the fact that it was introduced at the same time as other grain price reform plans across the nation, Hainan's plan differs from the latter in six ways:

- A different form of price management. While the rest of the nation still follows the grain procurement price system, Hainan has switched to the state guidance price system.
- Prices can float within a certain range. Under the Hainan grain price reform plan approved by the State Council, Hainan has the power to raise or lower procurement and selling prices by 5 percent. In contrast, other localities still follow state unified prices and have no power to adjust prices in either direction.
- Both procurement and selling prices have been changed. Other plans only raised the selling prices of rationed grain and oil available to township residents, while the Hainan plan also increased procurement prices. The procurement price of 50 kilograms of Grade 3 rice is now 35 yuan, up from 25 yuan.
- The increase in selling prices is substantial. Other plans in the nation raise the selling prices of flour, rice, and, corn rationed to township residents by 0.2 yuan per kilogram on the average. In contrast, the Hainan plan increases the selling price of Grade 3 polished long-grain non-glutinous rice by 0.68 yuan per kilogram, so 50 kilograms now sell for 50 yuan, up from 16 yuan, higher than the 44.5 yuan in Guangdong and 40 yuan in Fujian. We can thus see that the increases are higher in Hainan.
- Put an end to the situation where selling prices are lower than procurement prices. The finance agency has stopped subsidizing the difference between grain procurement prices and selling prices but continues to subsidize operating costs (0.14 yuan per kilogram). Elsewhere in the country, new grain selling prices remain lower than the current procurement prices. The government continues to subsidize the difference between the two sets of prices as well as the operating costs.
- No uniform worker subsidies have been set since prices go up by varying amounts across the nation.

Worker subsidies increase 6 yuan per person nationwide. In Hainan, it is 10 yuan.

In the one month or so since its introduction, the situation overall has been quite stable. In conversations with the local cadres and masses, we found that most people support and endorse the latest round of reform, the masses are at ease, food supply is normal, society is orderly and market prices are stable.

The latest reform by Hainan has clearly paid off in four ways. First, it has basically divided the burden of the trading and consumption of grain among the government, enterprises, and individuals, putting an end to the situation in which the government assumed total responsibility, and turned every party's responsibility from hidden to overt. Basically the Hainan plan divided up the burden as follows: state, 38 percent; enterprises, 42 percent; and individuals, 20 percent. Second, it has mobilized the enthusiasm of peasants for growing grain. Now that grain procurement prices have been raised, peasants in the province will increase their earnings 17.36 million yuan a year. This will make the peasants feel that grain cultivation is profitable. A trend toward increasing the acreage under cultivation has appeared in some places. Moreover, peasants have become notably more eager to meet the government grain procurement quotas. Third, it has made township residents more conservation-minded when it comes to grain consumption. No grain shortages have appeared in the wake of the reform. On the contrary, grain supply is fairly stable. This shows that with grain prices up, people have become more economical in the way they consume grain. Fourth, prices are stable, lessening the burden on the government coffers. Social commodity retail prices in the province have been steadily declining since last year. As a result of grain price reform, the finance department saw its revenues go up 2.20 million yuan while spending went up 1.17 million yuan, for a net gain of over 100 million yuan. It was able to reduce borrowing from the banks by a corresponding amount and saved some funds for other undertakings.

From what we have learned in this survey, despite its overall success, there is also room for improvement in the latest round of grain price reform.

Basic Lessons From the Success Story of Grain Price Reform

Hainan took a bolder step than the rest of the nation in the current round of grain price reform. By and large it has been "smooth sailing." Apart from reasons that have to do with the macroeconomic climate, (the whole nation is moving in that direction, both the State Council and the CPC Central Committee have made grain price reform a priority, the principles and policies are correct, and timing is good), there are factors unique to Hainan itself, which can be summed up as follows: The procedures are scientific and safe, with the province deciding to clear the periphery first before storming the fortress.

Subsidies were calculated and worked out with meticulous attention to detail, the idea being to take care of the majority while trying to accommodate the special cases as well. Propaganda work was solid and extensive, building a consensus on the basis of understanding. The state supported the plan and gave the province room to maneuver and make changes.

Previously Hainan had already taken two steps to reform its grain procurement and selling system, which paved the way for the current round of reform. In the first step, which took place between 1985 and 1988 before it became a province, Hainan replaced the low prices for grain consumed domestically, grain used in food processing, grain used as nonagricultural forage, as well as assorted special grains-in-aid and grain used as a reward with negotiated prices. It also cut 35 million kilograms from the low-priced grain quota, down to 50 million kilograms per year. The second step was taken at the beginning of 1990, after Hainan was made a province. In response to changes in the incomes and consumption patterns of its residents, grain ration was reduced by an average 20 percent. At the same time the prices of cooking oil and sugar were deregulated. The low-priced grain ration for township residents was cut from 12.75 kilograms per person per month on the average to about 10 kilograms. This alone trimmed the low-priced grain quota by 60 million kilograms and reduced government subsidies by 90 million yuan. By unveiling a string of reform measures like these, Hainan gradually dismantled the peripheral barriers surrounding grain procurement reform and made all parties more adaptable, thereby lessening the pressure of the latest round of reform.

To make the current round of reform a success, the departments involved in Hainan have done a good deal of research and studies, analyzing in earnest the possible impact of reform on different types of consumers and worked out carefully the corresponding compensation standards so that the bulk of residents would not have to spend an excessive amount of money on food. Under this reform, every worker was given 10 yuan in subsidy per month. Add the 5.5 yuan of subsidy granted to him in 1990 when grain ration was reduced, and each household receives a total of 31 yuan in grain price differential compensation. Assuming that each kilogram costs 1 yuan, the subsidy would enable the household to buy 31 kilograms of grain, or 10 kilograms or so per person, basically unchanged from the fixed amount. In other words, the vast majority of residents do not really have to pay more for grain after reform although the prices of manufactured grain products have indeed risen. As a result, there have been relatively few complaints from the masses about grain price reform. Compared to the rest of the nation, grain price subsidies in Hainan have been set at a fairly high level.

Before the reform plan was introduced, Hainan at first planned to make the change in one big stroke by deregulating grain prices and had actually done a lot of publicity with that in mind to achieve an understanding

and create the consensus that reform was inevitable. As finally approved by the State Council, the reform plan was less risky than the original version. Besides, party and government leaders at all levels took the introduction of reform measures very seriously. They further refined publicity and educational work, unified thinking, and carried out in-depth surveys and studies to uncover and solve problems in time. Consequently, the current round of reform was greeted by a sympathetic public opinion and a favorable climate.

Hainan leads the nation in adopting state guidance prices and equalizing procurement prices with selling prices. Apart from geographical factors, it has also benefited from powerful support from the state. Before Hainan Province became self-sufficient in grain, the state shipped 275 million kilograms of grain from the mainland to Hainan each year, including 225 million kilograms of low-priced grain, about 70 percent of the province's low-priced grain quota. This move alone enabled Hainan to go ahead with grain price reform by easing the various contradictions that might otherwise arise in the course of reform.

Besides, Hainan is an island with a predominantly rural population. This is an advantage when it comes to grain price reform.

Basic Philosophy Behind Nationwide Grain Price Reform: The Hainan Perspective

Since 1 May, the selling prices of grain and cooking oil have been raised around the nation successfully. Compared to Hainan, however, those places have made only a relatively modest move. There the relations between grain procurement prices and grain selling prices are far from being straightened out. Even today the selling price is off the procurement price by 0.1 yuan or so. With the selling price still lower than the procurement price, the burden on the treasury remains onerous. Moreover, prices at which the government procures grain are becoming more and more depressed, affecting the peasants' enthusiasm for production. Thus the task of deepening grain price reform across the nation remains an arduous one. While the Hainan experience in grain price reform is unique in some ways, it does offer a few lessons applicable to the rest of the nation.

1. The course taken by Hainan in grain price reform is practical and feasible and can certainly be duplicated. Hainan is an island and a special zone. However, as a long-term grain-importing province, it has made a successful move in grain price reform after years of hard work. Its success story offers a lesson that others can emulate. In the seven years since 1985, when reform began, Hainan has been following a course of incrementalism. It started out by attacking the periphery and then proceeded to storm the fortress, introducing progressively more thorough reform measures as the years went by. Specifically, it replaced the low prices of grain consumed by industry with negotiated prices. Next it reduced the amount of grain ration for residents. Then it

further adjusted grain procurement and selling prices. Relatively risk-free and easy to carry out, the Hainan plan was understood by and had the cooperation of most citizens. The whole process of reform has been smooth and steady. Except for the fact that grain operating costs continue to be subsidized by the government, reform in that area having been put on hold, the relations between grain procurement prices and grain selling prices have now basically been sorted out. Thus a new operating mechanism is now in place. What the Hainan experience proves is that although grain price reform is highly sensitive, affecting as it does the vital interests of the masses, and that we must move extremely cautiously, it can be done. On the contrary, provided we are determined, choose and stick to the right approach, seize the opportunity, and take thorough and comprehensive measures, we will accomplish something, perhaps a lot. We propose that as their next move in grain price reform, localities across the nation concentrate on reducing low-priced grain quotas. Nationwide most township residents do not use up all of their ration, leaving about 3 kilograms unused per person per month, so the ration can be cut back as appropriate. Moreover, in the wake of rising incomes, grain accounts for just 6.6 percent of a person's total living expenses. Thus the amount of extra spending for the resident resulting from the deregulation of commercial grain would have only a limited effect on his budget and not cause strong repercussions. It is possible to trim 5 billion kilograms from industrial grain and domestic grain ration quotas, which will save the government about 2 billion yuan in subsidies and pave the way for deepening grain price reform and further raising grain selling prices by removing the external hurdles.

2. Mobilize the enthusiasm of peasants for growing grain. Right now we have to deal with the fact that state protected prices are not doing what they should do and that the prices of agricultural capital goods are soaring. But we must also think long-term and solve the problem of excessively low grain procurement prices. In the current round of grain price reform, Hainan linked procurement prices to selling prices and solved the problem of the underpricing of grain at the procurement end. The reform enjoyed widespread support among the peasants and was highly effective in unleashing their enthusiasm for growing grain. Elsewhere in the nation, however, grain price reform was limited to raising selling prices without doing anything to procurement prices, something which has elicited many complaints among the peasants. There are strong demands and high hopes that grain procurement prices will be raised as well. In our opinion, grain procurement prices should be raised at the right moment provided there are sound internal agricultural price ratios to send a clear signal to the peasant and preserve and enhance his enthusiasm for growing grain, thus setting the stage for a bumper harvest.

3. Deal with different cases differently. Formulate a comprehensive subsidy reform policy to soften the

impact of reform. In the course of reforming the grain price system, Hainan took pains to develop an appropriate subsidy policy to minimize the burden of reform upon the masses. In the short run, it does not do the government coffers much good when it has to shell out subsidies even as reform is under way. On the other hand, Hainan believes that as reform measures go into effect and relations are sorted out, the financial burden on the state in the long haul will become progressively lighter. As we see it, this way of looking ahead instead of looking back at the past helps people transcend the original mode of thinking and begin to consider and solve problems from a new perspective. The reality in China is that after more than a decade of reform and opening to the outside world, the incomes of most people have risen notably. Instead of struggling to feed and clothe themselves, some township residents have now attained a fairly comfortable standard of living. Thus there is now a greater ability to cope with reform economically. Grain price reform is consistent with public wishes, but it must be achieved gradually. Also we must see that the rise in incomes has been uneven. The incomes of some households have been inching up sluggishly and some still live amid hardships. Their economic ability to cope with reform remains fragile. According to a study, among township households where the per capita monthly income is less than 70 yuan (about 7.7 percent of all township households), per capita savings amount to only 352 yuan, compared with 1,909 yuan among households where per capita monthly income is over 190 yuan (about 10.7 percent of all households,) a 4.4-fold difference. Therefore, different cases must be dealt with differently and a proper reform subsidy policy must be put together to suit different income levels in order to ensure that the basic subsistence needs of low-income residents are met. This is an important reason why reform has been successful in Hainan.

4. Pay attention to the timing of deepening grain price reform. Hainan did a very good job in timing its grain price reform. They picked the year following the bumper harvest of 1984 to replace the low prices of industrial grain with negotiated prices. They also picked 1990 and 1991, when peasants reaped a bumper crop, when market supply and market demand were in balance, and when prices were stable, to cut the grain ration for residents and to equalize procurement prices with selling prices, with anticipated results. As we see it, nationally speaking four criteria must be met in determining when is a good time to deepen grain price reform. First, has there been a bumper harvest? Second, is the overall price level on the market stable? Third, does the state have enough reserves? Fourth, can the finance office, enterprise, and individual cope? Taking the four factors into consideration, we should not make regulations binding on the whole nation across the board. Instead, the localities should draw up their own grain price reform plan depending on local conditions.

5. The strategy in grain price reform should be one of comprehensive balance on the national level and decentralized decision-making on the local level. China is a vast country where the level of development varies from area to area. The conditions in grain importing areas are different from those in grain-exporting areas. Thus grain price reform cannot be carried out according to a national mode. The success stories in Hainan, Fujian, and Guangdong also tell us that decentralized policy-making and suiting measures to local conditions is a feasible approach in grain price reform. It is relatively risk-free and is only slightly burdensome for the state. We should stick to this tried-and-true approach. Given a comprehensive balance on the national level, the localities should decide the pace and model for their own reform while the state should concentrate on inspection and supervision and deal with any contingency.

Ministry Says Timber Imports Increase

HK1908131991 Hong Kong TA KUNG PAO in Chinese
13 Aug 91 p 25

[Report: "Interior Suffers From Disequilibrium of Timber Demand and Supply, Will Import Large Quantities of Timber From Abroad"]

[Text] The Ministry of Materials and Equipment's ZHONGGUO WUZI BAO [China's Material Post] reports that domestic timber consumption has recently drastically increased, widening the gap between demand and supply in light of inadequate domestic timber production. As the shortage in domestic forest resources in the next few years is expected to become very sharp, bulk import of timber will be a long-term state policy. For this reason, people in the timber industry believe that this will create a tremendous impact on global timber sales and the interior's foreign trade as it has always been a large timber consumption market.

Currently the interior consumes up to 100 million cubic meters of timber each year, but produces domestically less than 70 million cubic meters, leaving a wide gap between demand and supply. As domestic forest resources have long been deprived of scientific care and treatment and subject to an imbalance between felling and planting, forest resources deficits have been growing annually. According to statistics, the country's forest areas are now 12.98 percent, much lower than the world's and Asia's 32 and 22 percent respectively. Amounts of timber suitable for felling in future forests will be less than 1.5 billion cubic meters, which will last only seven to eight years. One third of the country's 131 state-run forestry bureaus are faced with the dire prospect of running out of forests.

Faced with the growing domestic demand for timber, previous measures such as economy of use, finding substitutes, and placing limits on timber consumption are no longer capable of solving problems. Only vast increases in imports can ease the contradiction. Recently the domestic timber processing industry has also been

developing rapidly. Synthetic plastic-board industries in Shanghai and Beijing, which enjoy some sort of foundation, often find their production facilities laying idle owing to lack of raw materials, which cause great wastage.

The report believes that the country each year needs to import 15 million cubic meters of timber. If each cubic meter of timber consumes three cubic meters of forest, that import amount could each year save 50 million cubic meters of forest from felling. This will be good for maintaining a stable transition for the domestic forest industries. Meanwhile, as domestic forest resources are concentrated in the northeast and southwest, whereas big timber consumers are coastal cities in the southeast, domestic timber transport has been under a heavy burden. Import of timber by coastal cities will alleviate the currently tight railway transport schedules. People in the timber industry point out that China is a big timber-consuming country in the world, with a wide domestic timber market. If the interior is going to import vast amounts of timber in the future, this will have a relatively big impact on China's foreign trade and the global timber market.

Qinghai Strengthens Grasslands Construction

*OW0909081491 Beijing XINHUA in English
0717 GMT 9 Sep 91*

[Text] Beijing, September 9 (XINHUA)—The provincial government in northwest China's Qinghai Province has adopted measures to encourage herdsmen to forsake their nomadic life and instead settle in one area to raise livestock.

As a result, the number of livestock in the province, one of the country's five largest pastoral areas, reached a record high of over 23.18 million last year, according to today's PEOPLE'S DAILY.

At present, over 521,900 people in the province are engaging in animal husbandry. The grassland area in Qinghai now stands at 36.47 million hectares (ha), and accounts for 96 percent of the province's total land area.

The output value of the animal husbandry industry is the second highest contributor to the province's gross agricultural output value.

As part of an effort to strengthen grasslands construction the provincial financial department invested over 498 million yuan to fence 591,633 ha. of prairie and plant grass on 386,470 ha., between 1979 and 1990.

In addition, the province constructed livestock shelters covering 244,200 square meters and improved over 222,530 ha of grasslands during the past decade. At present, 38 percent of Qinghai's previously nomadic herdsmen have decided to settle in one area.

Over the past three years, 200 villages in the province have established comprehensive service centers to serve the herdsmen. As a result, the province's animal husbandry industry has developed rapidly, and the growth rate in the number of livestock increased from 3 percent annually in 1979 to 22 percent in 1990.

Agricultural Research Projects Underway

*OW1409043891 Beijing Central People's Radio
Network in Mandarin 0930 GMT 13 Sep 91*

[From the "National Hookup" program]

[Text] According to XINHUA, the renowned agriculture-related research projects of the nation's Eighth Five-Year Plan are already underway. The Science and Technology Department of the Ministry of Agriculture said that mammoth research will be conducted on 17 projects concerning the development of agricultural resources, cultivation of new strains, the harnessing of resources in some regions, crop protection, animal husbandry, aquatic products, feeds, and others. The nation also expects that its agricultural research will reach a higher level by the end of the Eighth Five-Year Plan period.

According to the department, cultivating new strains and devising comprehensive measures to harness the resources in five large regions in the country will be the priorities of the agricultural research program of the Eighth Five-Year Plan. With regard to the cultivation of new strains, efforts will be made to further improve the quality and productivity of new strains. The target is to cultivate 250 new strains, and the productivity of some of them will be 8-15 percent higher than those cultivated during the Seventh Five-Year Plan period.

It has been learned that since the founding of New China 40 years ago, the nation has upgraded its major seed strains three times, thanks to the cultivation of more than 4,000 good strains. During the next five years, China will organize a large number of experts to carry out comprehensive research to boost the productivity of the low and medium-yielding croplands in the Songjiang-Nengjiang plain, the Huanghe-Huaihe-Haihe plain, the loess plateau, the dry crop region in North China, and the red and yellow earth region in South China. Moreover, on the basis of the work started during the Seventh Five-Year Plan period, efforts will be made to complete over 50 experimental zones in various parts of the country, with the exception of Xinjiang, Qinghai, Tibet, and Hainan.

The world-renowned research to increase productivity in the Huanghe-Huaihe-Haihe plain will be expanded from farming of the previous five-year plan period to all sectors of the rural economy, including animal husbandry and processing of agricultural and sideline products.

Labor Official Urges Social Security Reform

91CM0519A Beijing JINGJI CANKAO BAO in Chinese
8 Jul 91 p 3

[Article by Han Liangcheng of the Insurance Benefits Department of the Ministry of Labor: "Reform of the Social Security System Should Not Be Delayed for a Single Moment"]

[Text] Since the start of economic reform, China's existing social security system has become increasingly unsuited to the needs of the development of socialist planned commodity economy. The state has tried reforms, and the following have been the main items:

1. Enterprises have implemented on a trial basis a social plan for pension budgets. At present, enterprises in 2,274 cities and counties, accounting for 96 percent of all cities and counties nationwide, have implemented plans for pension budgets; 52 million working employees and over 10 million retirees are participating in the plan, over 17 billion yuan in funds have been collected annually, and over 15 billion yuan has been paid annually. Employees of urban and town collective enterprises in 1,047 cities and counties, accounting for 44 percent of all cities and counties nationwide, have implemented plans for pension budgets.

2. Establishment of a retirement and old-age insurance system for contract workers of state-run enterprises. By the end of 1989, nationwide 12 million urban contract workers were covered by retirement and old-age insurance. Units deduct about 15 percent of total wages for old-age insurance premiums, and the individual pays about 3 percent of his standard wages. The establishment of the system has eliminated the contract workers' worry, and ensures the smooth implementation of labor reform.

3. The preliminary establishment of a system of price subsidy for retirees to mitigate the impact of inflation on the life of retirees.

4. The preliminary establishment of a system of job-waiting insurance for employees of state-run enterprises. The source of funds for this system are enterprises pay a premium of 1 percent of the total standard wages of employees. During job-waiting, an employee can receive, depending on seniority and amount of time job-waiting, job-waiting relief benefits in the amount of 50 to 75 percent of his standard wages. For job-waiting relief benefits, those with five or more years of employment history will be eligible for a maximum of two years, and those with less than five years of employment history will be eligible for a maximum of one year.

The above-mentioned reforms have played a positive role in protecting the livelihood of employees and in promoting the development of production. They have created conditions for a comprehensive deepening of reform of the social security system, but have not fundamentally affected the old social security system; and those old defects still exist to some extent. To invigorate

enterprises and promote reform of labor and wage systems, reform of the social security system must be accelerated, and reform should be carried out in conjunction with reforms of the labor and wage systems in a coordinated way.

Through reform, it is necessary to gradually establish a social security system that combines basic insurance with supplementary insurance, is funded by the state, enterprises and individuals, links benefits to premium payments and is managed in a socialized way.

1. The old-age insurance system

(A) Change the single-layer insurance into multi-layer insurance. The old-age insurance for enterprise employees consists of three parts: one, the state basic old-age insurance, that is, mandatory insurance; two, enterprises' supplementary old-age insurance; and, third, individual savings to supplement old-age insurance.

(B) Implement social plans for pension budgets, and establish a system of old-age insurance funds. Old-age insurance funds are to be raised, according to real needs and enterprises' supporting capabilities. On the basis of the principle of "partial accumulation," the state, enterprises and individuals are to share the burden. Plans for pension budgets will move from city- and county-level plans to provincial-level plans, and ultimately to national-level plans.

(C) Establish a system of individual employees' paying old-age insurance premiums.

(D) Establish a system ensuring that retirees' real income does not decrease due to inflation.

2. The system of medical insurance

Medical insurance should be reformed according to the principles of ensuring medical treatment, of eliminating waste, and of individuals' paying an appropriate amount in premium. Reform ideas are:

(A) Implement the method of individual employees bearing responsibility for a small part of the expenses for their medical care.

(B) Establish medical insurance funds. The funds are to be raised by social security institutions, according to the principle of "meeting real needs and keeping a small surplus"; the units are to pay the amount equal to a certain portion of total wages, and the individual employees are to pay the amount equal to a certain portion of their respective standard wages.

3. Job-waiting insurance

(A) Expand the scope of coverage of job-waiting insurance. The scope of job-waiting insurance should gradually develop from covering employees of bankrupt enterprises, employees laid off during the mandatory rectification period for enterprises on the edge of bankruptcy, workers whose contracts have been terminated,

and employees dismissed by enterprises, to covering all workers in all urban and town enterprises.

(B) Appropriately raise the premium for job-waiting insurance.

(C) Improve management of job-waiting people, and train and provide employment guidance for job-waiting people. Help job-waiting people find new jobs as soon as possible, to shorten the time in job-waiting, reduce the payment of job-waiting insurance premiums and alleviate enterprises' burden.

4. The system of injury insurance

(A) Adjust the amount of benefits for injuries. It is necessary to change the method regarding injury benefits for employees from the existing method of providing pensions only for those employees who have completely lost their ability to work into a method of providing long-term-based injury annuities as well as one-time injury compensation for all injured employees in accordance with the degree of loss of ability to work.

Regarding benefits for job-related death, it is necessary to appropriately increase the amount for funeral-expense benefits and the amount for support for surviving family members; at the same time, establish a system of one-time compensation.

(B) Establish a system of periodic adjustment of injury insurance benefits, to keep up with inflation and improvement of people's living standards.

(C) Establish injury insurance funds.

Reform of the social security system involves various aspects and is very complicated. It is necessary to recognize the difficulty of reform, and to actively search for solutions. During the Eighth Five-Year Plan period, definitively take reform of the old-age insurance system and job-waiting insurance system as the breakthrough points for reform of the social security system. At the same time, it is necessary to reform the systems of medical insurance and injury insurance.

Profit Policy Goal Gives 'Impetus' To Arms Sales
91CM0470A Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 256, 1 May 91 pp 52-53

[Article by Cheng Zihua (4453 1311 5478): "Communist China's Weapons Diplomacy"]

[Text] During the early 1980's, the Chinese Communists established eight major import-export companies for weapons. Munitions shipments increased from \$1.2 billion in 1980 to \$3.1 billion in 1990. In order to learn about the real state of Communist China's armaments, Taiwan acquired quite a few specimens of Chinese Communist equipment from Thailand and Israel, but most were second generation weapons.

Following implementation of reform and opening to the outside world in 1978, the Chinese Communists used the shipment of munitions as a tool for earning foreign exchange and for developing their overall interests in order to give impetus to the flexible economic measures of "enlivening the internal economy while opening to the outside world" and to drastically change its former policy about weapons shipments.

A 3.6-Fold Growth in Weapons' Shipments Within 10 Years

Chinese Communist General Logistics Department data show the establishment in the early 1980's, with the approval of the "State Council" and the "Central Military Affairs Committee," of eight large weapons import-export companies which combine industry and trade. Munitions shipments abroad rose from \$1.2 billion in 1980 to \$3.1 billion in 1990. Within the short space of 10 years, Chinese Communist weapons shipments grew 3.6-fold. This showed these eight weapons import-export companies to be outstanding units in "earning foreign exchange" for Communist China.

The Eight Weapons Import-Export Companies

1. The Northern Industrial Group. This group was reorganized from the former Chinese Communist Fifth Ministry of Machine Building Industry as a center for production of conventional army weapons. Its exports include the T-59, or the T-80 and T-85 tank, the YW-531-C, YW-531D, and E armored infantry combat vehicles; the YW-701A and B armored command cars; YW-304-82 self-propelled mortar carriers, YW381-120 self propelled howitzer carriers; YW-750 armored ambulances, anti-armor missiles or artillery; land-based Hongying Model 5 and Model 8 antiaircraft missiles; machine guns, rifles, and both Black Star and Red Star pistols. In order to expand its "services," the northern company not only established branch companies in the special economic zones, but also placed many large advertisements in foreign military magazines showing fine equipment at reasonable prices and guaranteeing after-sales service. It also participated in international weapons fairs in Beijing and elsewhere.

2. Air Technology Import-Export Corporation. This corporation was reorganized from the former Third Ministry of Machine Building Industry. It is responsible for sales of MiG-19's, foreign sale models of F-7 and F-8 fighter planes, and FL-2 and FL-5 air missiles. It has established branches abroad to sell space flight and aviation products.

3. The Shipping Industry Corporation. This corporation was reorganized from the former Sixth Ministry of Machine Building Industry. It is responsible for Luda-class and Jiangdong-class vessels, and warship sales, and for foreign shipments of torpedoes, R-class, W-class, and M-class submarines.

4. Electronics Technology Import-Export Corporation. This corporation was reorganized from the Fourth Ministry of Machine Building Industry. It is responsible for sales of torpedo firing and electronic warfare systems, anti-electronic warfare systems, and anti-electronic warfare artillery systems.

5. Precision Machinery Import-Export Corporation. This was reorganized from the former Eighth Ministry of Machine Building Industry. It is responsible for sales of SAM system air-defense missiles, C-801 ship-to-ship missiles, shore-to-ship Silkworm missiles, and all other types of missiles.

6. Atomic Energy Import-Export Corporation. This corporation is responsible for servicing nuclear and biochemical defense equipment and the processing of nuclear waste.

7. General Science and Technology Corporation. This is a unit under direct jurisdiction of the Chinese PLA [People's Liberation Army], and it is also Communist China's sole military sales agency corporation. It sells strategic nuclear missiles and military satellites, as well as observation and communication radar systems. Communist China's sales to Saudi Arabia of Dongfeng missiles and carriers were also handled by the General Science and Technology Corporation.

8. The China New Age Corporation. This corporation is the general agent for the aforementioned seven large corporations for the export of weapons. It is responsible for handling sales of Chinese Communist ordnance abroad. The New Age Corporation is also the sales agent for the shipment of anything from equipment for individuals to military computers.

No Legal Restrictions on Arms Shipments

In addition to the large weapons proxy corporations, all weapons producing units in Communist China and Chinese-owned agencies abroad may engage in weapons sales through certain channels. For example, the Luoyang Photoelectricity Equipment Research Institute, the Chengdu Aircraft Corporation, the Xi-an Oriental Machinery Plant, the New Satellite On-board Equipment Manufacturing Plant, the Xi-an Space Navigation

Equipment Corporation, the Dianhua Electronics Technology Research Institute, and the Nanchang Aircraft Manufacturing Corporation can all sell weapons. They may sell anything from equipment for which individuals make deals to missile gyroscopes to strategic nuclear missiles so long as there is a way to do it. Even individuals may buy this equipment. This shows that China is not limited by legal regulations in the shipment of weapons abroad. The CPC Central Committee, the State Council, and all business corporations under the jurisdiction of each of the PLA's general departments [General Staff Department, General Logistics Department, etc.] may do anything possible to promote the sale of weapons abroad under a profit sharing policy. Since 1984, in particular, when the Chinese Communists required that all weapons sales corporations must be responsible for their own profits and losses and also tender 50 percent of funds received to the central government, in order to be successful, all sales corporations have created multiple channels to facilitate sales and have greatly shortened the time required to obtain weapons. In a situation of not very much supervision and control, "cheapness, sturdiness, durability, ease of operation, after sale service, and reasonable prices" have become the best selling points in advertisements promoting the sale of Chinese Communist weapons.

Shipments of Red Star Pistols to Hong Kong and Taiwan

In addition to the economic factor in Communist China's sales of weapons, its pursuit of a "weapons diplomacy" policy is an indirect strategy used to attack Taiwan. For example, Communist China's sales of Dongfeng missiles to Saudi Arabia destroyed diplomatic relations between Taiwan and Saudi Arabia. Communist China's sales of munitions to the Third World also indirectly limit Taiwan's progress in diplomatic relations with the Third World.

Furthermore, the Northern Industrial Group's delivery of Black Star and Red Star pistols to Japan, Korea, Taiwan, and Hong Kong caused a rapid deterioration of public order in Taiwan and Hong Kong. Possibly this was not a part of Communist China's foreign policy; nevertheless, it cannot be denied that in a situation in which weapons export companies have to pay a part of their profits to the state, the annual export to Japan, Korea, Hong Kong, and Taiwan of more than 100,000 Black Star and Red Star pistols can be done only with the tacit approval of the Chinese Communists.

An official of the Chinese Communist Northern Industrial Company confirmed that the Northern Industrial Company's strategic spot for the export of arms was the Shenzhen special economic zone where business involving Black Star and Red Star pistols was a staple of the export trade. Once a price was agreed upon, everything from the placing of orders to transportation to the delivery of the goods was handled by professionals. The

process shows that the Chinese Communists are increasingly commercializing the export of arms and ammunition. Analysis of Communist China's munitions export policy shows a change from unitary to diversified sales that Taiwan should heed.

Taiwan Gets Chinese Communist Military Equipment From Third Countries

Actually, in the military weaponry development process, Communist China has always posed a threat to Taiwan. In order to gain an understanding of the real state of Communist China's armaments, Taiwan obtained quite a bit of military equipment from Thailand and Israel, particularly in the field of missile technology. Taiwan obtained specimens of Chinese Communist missiles through a Thailand agent. However, according to the Chinese Communists, most of the specimens that Taiwan has obtained from a third country are second generation weapons. Virtually all of the arms that Communist China has sold abroad are refitted and simplified models, and do not include third generation technology. Therefore, Taiwan has revealed that these specimens obtained from third countries cannot reflect the state of development of Communist China's arms. According to an official in the Intelligence Department of the Chinese Communist General Staff, Communist China's eight large arms corporations regularly receive orders of unknown origin, and they also suspect that some of these orders are for transshipment to Taiwan. Therefore, in processing them, the Chinese Communists are keenly aware of the possible intended use of the weapons. Granted that under the policy of making profits, Communist China's exports of arms and ammunition are not controlled; nevertheless, in accepting orders, Chinese Communist intelligence units can also make up their mind whether or not to sell after study. Clearly, both Communist China and Taiwan keep their separate counsel on "arms shipments."

Profits From Sales of Weapons Used To Improve Weaponry

In addition to the political and economic factors, one of the reasons that Communist China's shipments of arms and ammunition are free of restrictions has to do with national defense. Following the Chinese Communist 1984 announcement of a cut of 1 million in the size of its armed forces, in particular, it has pursued a policy of cutbacks in national defense expenditures. It is estimated that about 50 percent of the profits from Chinese Communist arms sales were applied to national defense expenditures for the period 1984 to 1991, including 30 percent for national defense research expenditures, and 20 percent for other construction. Analysis of Communist China's allocation percentages suggests that the Chinese Communists plan to pursue a gradual method in the long-range improvement of their weaponry. In coming years, Communist China is bound to pose a real threat to Taiwan. This point is clear from the "shipments" of Black Star and Red Star pistols to Taiwan and the sales of Dongfeng missiles to Saudi Arabia which

caused a rupture in diplomatic relations between Taiwan and Saudi Arabia. In addition, the Chinese Communists intend to import Soviet SU-27 fighters to redress the balance in the air over the Taiwan Straits. It appears that unless Taiwan further studies Communist China's policy in making arms shipments, the one that will be harmed will be Taiwan not Communist China.

Computer System Designer Profiled

*OW2408013491 Beijing Central People's Radio
Network in Mandarin 2130 GMT 22 Aug 91*

["Feature report" by station reporter Zhang Zhongwen from the "News and Press Review" program: "An Outstanding Science-Technology Figure"]

[Text] Here is an introduction to Li Deyi, the deputy chief designer of our Armed Forces' command automation.

In June 1990, an academic book called "The Fuzzy Deductive Digital Database" [Mo Hu Yan Yi Shu Ju Ku 2875 4739 3348 4946 2422 2207 1655] was published in New York in the United States. It aroused great interest among the world's computer experts. The book puts forward a theory concerning a new generation of computers. It was reprinted and distributed in many cities including London, Lisbon, Tokyo, and Toronto. The author of this book is Li Deyi, chief engineer of a certain research institute under the General Staff Headquarters of the People's Liberation Army.

Currently, electronic information technology has become the most active and newly guided technology in the world of science and technology. Traditionally, computers have long been used in digital calculation and precision data processing. Great difficulties have been encountered in attempts to directly and effectively use them for information management, policymaking, humane and social systems, and large complex systems, as well as for simulating human thought and processing natural languages. Consequently, this has given rise to a revolutionary idea to study the technology relating to the structure for analog information computer systems and fuzzy information processing technology.

The reason why the book "The Fuzzy Deductive Digital Database" has attracted much attention is that Li Deyi has, by using a fuzzy language system as a nucleus, integrated artificial intelligence technology with digital database technology. This comprised a breakthrough in establishing a complete set of language processing systems and a method for fuzzy deduction. The 47-year-old Li Deyi is among the first batch of visiting scholars sent abroad by China after the Third Plenum of the 11th CPC Central Committee. While stationed overseas, he created an auxiliary design system for a computer structure with

a major parallel mechanism, the first of its kind in the world, through the use of artificial intelligence language. Heath, a renowned British computer professor, believes that this constitutes a revolutionary idea in the history of computer structure.

Since his return to China in 1984, Li Deyi has shouldered a heavy responsibility as chief designer for our Armed Forces' command automation, a key project during the Seventh Five-Year Plan period. Command automation is an important prerequisite for national defense modernization and military modernization. Currently, a revolutionary wave of new technology is sweeping over the entire world, and it has changed tremendously the traditional form of military confrontation. Future warfare will be one of high technology and of system versus system. Advanced command systems can make up for inadequacies in weaponry.

Through the concerted efforts of Li Deyi and his colleagues over a period of 10 years, command automation of our Armed Forces has made significant progress. From a monobase development system, the armed forces computer application has entered the stage of a long-range multibase development system. Command automation has become a symbol of our Armed Forces' advancement toward quality improvement and innovation. It has strengthened the combat effectiveness of our troops. It has been learned from the relevant department that since this all-army command automation system developed by Li Deyi and his colleagues was put into actual application, it has steadily and reliably handled and processed several millions sets of documents, graphic figures, and data, in the course of routine combat, emergency rescue and relief work, and everyday combat readiness. It has won a class state award in computer application. After scoring this major academic success, some foreign companies and research organizations have repeatedly approached Li Deyi with high paying job offers and helped complete the formalities for his wife to further her studies abroad; however, all these have been duly declined by Li Deyi. He insisted that he would like to assiduously carry on his work in this land, to which he has been firmly attached. What are his viewpoints on this matter?

Li Deyi said: I have looked at the matter in this way: Science and technology have no national boundaries. However, every scientist has his or her own motherland. I studied abroad for several years, and received training to upgrade my capability, but when I thought of my motherland, which is growing stronger and developing fast, I was seized with a sense of responsibility. I wanted to return to the motherland; I wanted to tie my own future with the destiny of my motherland. In this way, I would live a fuller life, just like a drop of water returning to the sea. It will never dry up.

Abuses in Taiwan Military Procurement

91CM0470C Hong Kong CHIU-SHIH NIEN-TAI [THE NINETIES] in Chinese No 256, 1 May 91 pp 59-61

[Article by Hsu Chun-ch'eng (1776 2689 6134): "Taiwan Military Ordnance Procurement and Its Shortcomings"]

[Text] In order to get a piece of the military procurement cake to eat, more than 6,000 firms, agents, and middlemen who depend on military procurement projects for their survival compete with each other in the market, causing numerous difficulties in military procurement work. All the behind-the-scenes maneuvering in military ordnance procurement is the inevitable result of "military secrecy" that protects a small number of "special interest groups."

Guided by Premier Hao Po-ts'un since 1982, procurement for "military investment," and for "weapons and equipment" to support war preparations, as well as maintenance of "logistical supply" have become three items in the national defense budget to which the Ministry of National Defense gives extremely serious attention. Ministry of National Defense investment in these three items since 1987 is estimated at more than 400 billion yuan (new Taiwan [NT] dollars, and the same applies hereinafter). By rights, the effect on Taiwan's economy of such a large expenditure should be "very beneficial," but actually this is not the case. Of the NT\$400 billion investment in military ordnance, approximately somewhat more than NT\$250 billion is spent on procurement from abroad, and another somewhat more than NT\$50 billion is taken up by the Chung Shan Scientific Research Institute. Of the remaining somewhat more than NT\$100 billion, somewhat more than NT\$50 billion is earned by firms in Taiwan and abroad, and the remaining NT\$50 billion becomes a target on which all arms agents or middlemen in Taiwan cast covetous eyes.

Building a Military Ordnance Procurement System

This situation shows that whether Taiwan has a clear-cut military ordnance policy after all is a matter that merits discussion. Since all of Taiwan's weaponry was supplied by the United States prior to the 1990's, whether Taiwan did or did not have a clear-cut ordnance procurement policy was seemingly unimportant. However, as a result of American limitations on military sales to Taiwan after 1990, Taiwan had to face realities. Only then did Hao Po-ts'un issue orders to units concerned in the Ministry of National Defense to study revision of the "Military Ordnance Procurement Regulations" in order to build a military ordnance procurement system.

From the time that the "Military Ordnance Procurement Regulations" were revised in 1985 until after Ch'en Lu-an succeeded to the position of minister of national defense in 1991, no further revisions were made until 25 January. These revisions included clarification of "secret" and "urgent" procurement, and the setting of standards. Ch'en Lu-an intended to eliminate abuses in military ordnance procurement, applying the "market

condition management system" used in the Ministry of Economic Affairs to the "Military Ordnance Procurement Regulations." However, for lack of supporting conditions, he found the going difficult.

According to one Ministry of National Defense official, inasmuch as legislators are rather unforgiving about "military ordnance procurement" projects, Ch'en Lu-an desires to abolish outmoded "military ordnance procurement" regulations. However, a study that aides and staff concerned in the General Staff Headquarters performed overruled Ch'en Lu-an's proposal leaving Ch'en Lu-an in a somewhat embarrassing position. In addition, Ch'en Lu-an's desires to take in hand budgeting and equipment matters also met with repeated reverses. Senior military statesmen such as Liu An-ch'i [0491 1344 4388] and Kao K'uei-yuan [7599 7608 0337] phoned Ch'en Lu-an to ask whether he wanted senior military statesmen to come forward to coordinate relations with military units. Subsequently, Liu An-ch'i and the others also took the initiative in telling Ch'en Lu-an that they would jointly "go to bat" for him with the Ministry of National Defense. To their surprise, Ch'en Lu-an refused the offer. His reason was that he did not want the senior military statesmen to intercede in order to avoid a backlash from the military on some subsequent matter.

Ch'en Lu-an's feeling that he is skating on thin ice shows that if he tries to change the national defense budget and military procurement standards, many problems may arise. In the past, no one but Yu Ta-wei, Chiang Ching-kuo, and Hao Po-ts'un were able to get control of the budget and military procurement during their terms as minister of national defense. The power of all the others has been limited.

Overly High Foreign Procurement Ratio

Take, for example, the 1992 budget that Ch'en Lu-an presented as minister of national defense. This budget totals NT\$264.5 billion, and its percentages (see table) differ little from the national defense budget for 1991. Although funds for matters related to military procurement such as for major weapons and equipment preparedness, war preparations support, scientific research, and supply and maintenance amount to more than NT\$100 billion, there is no marked difference from the 1991 budget in the tasks to be performed. This shows that Ch'en Lu-an's budget is still pursuing the same as Hao Po-ts'un had for building the armed forces.

Simplified Table Showing Taiwan National Defense Budget Items and Expenditures

Category	Particulars	Money (NT\$1,000)	Percentage
Military Investment 41.31%	Weapons and Equipment	57,044,640	21.56
	War Preparedness Support	13,544,736	5.12

Simplified Table Showing Taiwan National Defense Budget Items and Expenditures (Continued)

Category	Particulars	Money (NT\$1,000)	Percentage
	Ordnance R & D	2,188,500	0.83
	Military Facilities	4,199,660	1.59
	Construction and Equipment	14,839,526	5.62
	Non-operating Circulating Funds	4,319,889	1.63
	Military Education Facilities	709,870	0.27
	Scientific Research	11,596,150	4.38
	Scientific Research Equipment	817,700	0.31
Operational Support 20.79%	Military Administration	2,084,624	0.79
	Political Warfare	1,363,652	0.52
	Intelligence Work	7,265,990	2.75
	Combat Training	2,267,585	0.86
	Mobilization	625,313	0.24
	Supply and Maintenance	33,809,572	12.78
	Logistical Support	5,781,980	2.16
	Military Education	1,034,990	0.39
	First Reserve Fund	800,000.30	0.30
	Military Personnel	92,435,460	34.94
Personnel Support 20.79%	Insurance and Pensions for the Disabled and Families of the Deceased	5,591,140	2.12
	Maintenance of Military Dependents	2,210,830	0.84
Total		264,531,815	100

Source of Data: "Central Government General Budget," Vol 3.

Given the absolute influence of Hao Po-ts'un, at most Ch'en Lu-an will be able to shift sums of money in the "military procurement flow." Its essential structure and supervision will remain in the hands of military units, however. Take military ordnance procurement for example. From 1990 to 1991, Taiwan purchased a total

of more than 1,500 items of military ordnance abroad accounting for 17.6 percent of total purchases. Thus, it purchased 82.4 percent internally. In terms of money spent, the percentage of foreign procurement was 87 percent, while the percentage of internal procurement was only 13 percent showing an overly high percentage of foreign procurement.

Domestic and Foreign Scramble for Military Procurement Projects

Statistics show more than 3,200 Taiwan firms among those seeking to get a piece of the military procurement cake, and more than 3,200 agents or middlemen, as well, for a total of somewhat more than 6,000 firms who are dependent on military procurement projects for their survival. The overly large number of firms involved in mutual market competition causes very many difficulties for military procurement. An official in the military procurement group stationed in the United States said that because of the huge sums spent each year on the procurement of military goods in the United States, approximately \$620 million to be used in military purchases from the United States is deposited in a special savings account in an American bank, thereby earning high interest. However, this interest does not become a part of Ministry of National Defense budgeted expenditures. Instead, it is tapped for special expenses incurred by the high-ranking military officers responsible for military procurement in the United States. Additionally, in order to avoid trouble, the Ministry of National Defense regularly transfers prickly military procurement cases out of Taiwan, having its military procurement group call for tenders abroad. This makes arms agents in Taiwan somewhat unhappy, and it creates a headache for the military procurement group. Take some electronic equipment for which the T'ai-i Company was acting as the agent. Because T'ai-i, the Swiss Overseas Company and the K'ang-ti Company were all competing for the bid, each of them relying on retired high-ranking military officers resident in Taiwan to broker the deal, they ended up suing each other. This caused the unit letting the tender no end of irritation, and it finally dumped the case on the military procurement group for solution. As a result, the firms that these three agents represented became involved in the imbroglio, so now competitive bidding is still going on.

The More Secret the Work, the Greater the Behind-the-Scenes Maneuvering

The fact is that all three agents— T'ai-i, the Swiss Overseas Company, and K'ang-ti— had all previously sold military ordnance to the Ministry of National Defense. T'ai-i, for example, had imported Swedish Bofors rapid fire guns; the Swedish Overseas Corporation was the sole contractor of some electrical products; and the K'ang-ti Company was the representative of the BR Corporation in Taiwan, involved in the sale of "data processing equipment" (a kind of computer equipment.) The behind-the-scenes backers of these three firms were retired high-ranking military officers, and since each of

them had connections, they were a headache for the Ministry of National Defense. Seemingly, all the behind-the-scenes maneuvering in military ordnance procurement is the inevitable result of "military secrecy" that protects a small number of "special interest groups." Although the abuses in military procurement cannot be allayed by a few laws, out of consideration for "commercial interests" and "cost benefits," the Ministry of National Defense should make procurement more transparent in order to guard against abuses. Otherwise, when procurement is held in the hands of a small number of high-ranking officers who make the decisions, procedures will not be open and shady deals will be difficult to avoid. Take the incident involving Taiwan's procurement of submarines from RSV in which Taiwan's purchase from that company of spare parts sufficient for 10 years was an example. Separate agreements were signed for each instance in which parts were needed for maintenance rather than having a single agreement to assure the supply of parts. With each successive agreement, costs rose steadily. This generated many rumors that created misunderstandings.

Actually, the more secret the military procurement work, the greater is the behind-the-scenes maneuvering. The main reason behind-the-scenes maneuvering raises suspicions is the grievances among the arms dealers. Take the purchase of the 500MD helicopter for example. Because a high-ranking officer named Liang [2733] did not take into consideration commercial grievances, accusations were lodged against him, and he was placed under arrest under the military policy. Thanks to the strong support of Sung Ch'ang-chih [1345 7033 1807], he was able to avoid imprisonment. Clearly, the perils of military procurement are impossible to guard against. However, since it is a perilous profession, why do officials desire to do military procurement work? To put it bluntly, it is because of the rich profits in it. Take, for example, the case in which a deputy department chief named Lin [2651], an official named Chiang [3068], and an official named Chu [2612] joined together on the "106 (communications equipment) deal" for the military purchase of more than NT\$120 million worth of equipment. Had the Swedish Overseas Corporation obtained the contract, these three people would have split a profit of more than NT\$20 million. No wonder they dared to band together to perpetrate fraud, thereby attracting the attention of the General Political Department [tsung cheng chan bu 4920 2398 2069 6752].

Professors Withdraw From KMT 'en Masse'

91CM0450A Taipei HSIN HSIN WEN [THE JOURNAL] in Chinese No 216, 5 May 91 pp 75-76

[Article by Weng Wen-ching (5040 2429 7234): "Twenty-eight KMT Membership Cards Go Up In Smoke—Professors Announce Their Withdrawal From the KMT En Masse"]

[Text] In recent years, the KMT [Kuomintang] has been losing ground on the campuses. Not only has the number

of students joining the party been dwindling, but even more members have been alienated as they "lose touch with the party." On 24 April, 28 college professors announced their withdrawal from the KMT. Perhaps the KMT does not care about these members who have not been on good terms with the party, but the incident still sounds an alarm.

After the 1989 general election, a self-examination conducted by high-level KMT members suggested that certain members of the academia were hostile to the party. In fact, it has become a popular trend for members of the academia to be critical of the KMT. The professors' mass resignation from the party is but the final expression of their disappointment in the party.

Most professors who resigned are members of the University Reform Committee, the Cheng She, the Taiwan University Professors Association, and other organizations. Some had been party members for 30 years. It was only after the list was made public that people realized that many professors who had been critical of the KMT had been long-standing, staunch, and responsible members of the KMT.

Each professor who resigned had his own emotional experience and reasons for joining the party, and each used a different method and expressed different feelings when announcing his withdrawal from the party. Some were filled with righteous indignation; some were filled with sorrow and disappointment. On the evening of 24 April, in the square in front of Taiwan University, Normal University's Professor Lin Yu-ti [2651 3768 7555] was originally scheduled to lead the others in the party membership card-burning ceremony but was unable to attend because he was away at a Taiwan Preservation Society meeting. He was replaced by Chen Shih-meng [7115 1597 1322], economics professor at Taiwan University. Originally, the ceremony was intended to be a symbolic gesture, but because of Chen Shih-meng's family background, the incident took on new meaning.

At dusk, in the candle-lit Tai Da Square, Chen Shih-meng spoke in his not-very-fluent Taiwanese, "I teach Economics at Taiwan University. I am not a native Taiwanese. I have been a party member for 25 years. I am holding my membership card in my hand. This card has been with me for 25 years. Burning it expresses my disappointment in the party. Three generations of my family have been KMT members. If my grandfather and my father knew that the KMT has turned into such a shameless party, they would approve of my action. The KMT is called the citizen's party, but is it really the citizen's party? I love Taiwan, but I do not want to be a KMT stooge. Our card burning is a demonstration of our loss of all hopes in the KMT." Those in the square gave this non-native whose family has deep roots in the KMT a round of enthusiastic applause.

Ever since Chen Shih-meng's return to this country and his emergence as a rising star among the many professors

who take part in the social reform movement, people have associated him with his grandfather, Chen Bu-lei [7115 1580 7191]. Chen Bu-lei served Chiang Kai-shek for many years. Many of Chiang's essays were written by Chen Bu-lei; he was Chiang's right-hand man. But eventually Chen committed suicide, and rumors abounded about the cause of his death. Such family background makes the emotional experience behind Chen Shih-meng's critical stance against the KMT even more interesting.

Chen Shih-meng still remembers when he was young. His father was a KMT small group leader. Each time there was a group meeting at his house, the children would be chased out of the living room, and his mother would be busy fixing dinner for everyone. The young Chen Shih-meng would peek through the cracks and watch the elders and uncles pay tribute to and quietly recite the premier's last testimony. It was only after his father retired and gave up his post as small group leader that he noticed the change in the KMT. The new small group leader never held small group meetings; he even forged some minutes. Chen Shih-meng sighed, "Whom the degenerate KMT hurt most is not people like us but staunch members like my father who have served the party for decades."

Perhaps it is because of this kind of deep understanding that Chen Shih-meng believes that his family and elders would respect the choice of the younger generation, although emotionally, his father is against his making this kind of sharp criticism against the party. Chen Shih-meng joined the party after he was accepted by the university and was on his way to Mount Chenggong for basic training. He recalls that place with its strong sense of community. At that time, he was young and patriotic, and with his family background, he had no reason to refuse to join the party.

Living and learning abroad changed the way Chen Shih-meng thought about many things. Gradually he got away from the dogmatic thinkings about loyalty to the party and to the country, and he realized that he had been fooled by too many lies that had been mixed in with the facts. When his old friend Chang Ching-chi [1728 3237 3305] returned to Taiwan University to teach economics, he told Chen that Taiwan's academic environment needed improvement and persuaded him to return to Taiwan to do battles together. Chen returned to Taiwan in 1978 only to find that the campuses were steeped in politics and entangled in political concerns. This is also the reason why Chen Shih-meng, Chang Ching-chi, Chu Ching-i [4281 2417 0001] and other Taiwan University economics professors have been hard at work to effect social reform in the last two years.

In the past, the academia were slavishly dependent on the KMT, but in recent years, these 30- and 40-year-old scholars are no longer afraid to question the environment. In this round of mass resignation, there were six professors of applied mathematics from Zhongxing University, a campus which has long been the stronghold of

conservatism. It was a rare feat. When Taiwan University students sat silently in front of the campus and went on their hunger strike, these Zhongxing University math professors sat alongside the students and protested in silence. It might not have been a major event, but it sowed the seeds in the conservative central Taiwan campus.

Several Zhongxing University applied math graduates have returned from their overseas studies in recent years. They tend to be more liberal, and among them, Professor Liao I-en [1675 1355 1869] is especially so. He has become a key figure in motivating a series of events. Since the ratification of the reform of the university law, these Zhongxing University applied math professors have been helping and guiding each other and voicing support for each another. Liao I-en returned to Taiwan only last year, but he joined the KMT back when he was a high school freshman or sophomore, which accounts for his choosing to quit the KMT in protest. He said that it was not a rash move but was the result of a series of disappointments over the last year or two; it was the ultimate expression of his dissatisfaction with the KMT. In the past, it was mostly the law and political science professors who showed an interest in politics, but this time, it was the professors from the colleges of science and engineering, and there were quite a few of them. Besides Liao I-en's and other's catalytic role, this change by itself is well worth paying attention to.

Compared with the Zhongxing main campus, Taipei's Zhongxing law and business schools are even more conservative. Public administration professor, Kuan Pi-ling [4619 4310 3781], and law professor, Liu Hsing-i [0491 1630 5030] pose the biggest obstacle. Young Kuan Pi-ling's husband is a member of the Democratic Progressive Party, but she herself joined the KMT when she was a high school sophomore. To her, joining the party was the starting point of the concrete act of serving her country. Until these last two years, she has been the college's party organization administrator. Although she was assigned the job by the party, she never refused.

Despite her criticisms of the party, Kuan Pi-ling still had deep feelings for the party, and she was far from ready to embrace the Democratic Progressive Party. It was the KMT's poor showing at the interim assembly that prompted her to make this final break.

Tanchiang University computer science professor, Chuang Chi-ming [5445 3217 6900], who was named KMT's distinguished overseas young man joined the party when he was in the service. In the student movement last March, he began to notice the KMT's lack of sincerity in amending the constitution. He was disappointed by its failure to move forward. This year, he accompanied the students who went on a hunger strike and sat in silent protest for four days. When he saw that the KMT was completely unmoved by the students, he realized that the KMT had its own concerns, that all the reforms had not been for the good of the country but for the good of the party alone.

Among those who took part in this mass resignation, some were veterans who had participated in many other social reforms; others were newcomers. Ho Te-fen [6320 1795 5358] and Lin Yu-ti were trained by the Institute of Revolutionary Practice. Chang Chung-tung [1728 1813 2767] had been with the party for a long time. Some professors come from old KMT families. Hsia Chuchiu's [1115 6999 0046] and Chu Ching-i's [2612 2417 0001] fathers have close military and political ties. People of different status and background have chosen to sever their ties with the KMT.

This mass resignation from the party has been brewing for some time. It has been something many people have wanted to do since Ho Te-fen started the University Law Reform Committee. Everybody has been waiting for the right time. The process of amending the constitution at the interim assembly was the catalyst. Having planned this at different ends, 28 professors formally quit the KMT when Chen Shih-meng symbolically burned his membership card.

Subsequent to the professors' mass withdrawal from the party, Chuang Huai-i [5445 2037 5030], chairman of the KMT's Department of Youth Activities, indicated that those who burnt their membership cards could face party discipline. The most severe form of party discipline is dismissal from the party, but these people have already quit the party, so who is going to worry about party discipline? However, Chuang also suggested that the campuses should reregister party membership. The KMT should have done so long time ago. It should find out for itself how many members it has already lost.

Analysis of Investment on Mainland

91CE0657A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 5, 27 May 91 pp 13-16

[Article by Wu Xingdu (0124 2502 6757), International Trade Institute, Ministry of Trade: "Analysis of Taiwan Investment on the Mainland"]

[Text] I. The Basic Situation and Features of Taiwan Investment on the Mainland

In view of the fact that Taiwan and the mainland have a special relationship concerning politics, geography, language and customs, and in view of the features of Taiwan's industry, investment by Taiwan businessmen in the mainland in scale of investment, selection of industries, geographical distribution, choice of technology, and method of management has the following features when compared with direct investment by other foreign countries:

1. Taiwan investment on the mainland started late but has developed quickly. Although it is a small proportion of direct foreign investment, it has tended to grow steadily. According to the Ministry of Foreign Trade statistics, by the end of September 1990, the mainland had approved a total of 1,738 Taiwan-invested enterprises involving \$1.81 billion in agreed upon investment

capital from Taiwan compatriots. Taiwan-funded enterprises make up 4.8 percent of the mainland's "three kinds of foreign-owned enterprises" [three kinds of partially or wholly foreign-owned enterprises] and the agreed upon capital accounts for 3.2 percent of the foreign business investment in the "three kinds of foreign-owned enterprises."

2. Investment is primarily in labor-intensive manufacturing, while gradually developing towards capital-intensive and technology intensive industries. The industries in which Taiwan businessmen invest are basically the same as those in which foreign businessmen invest, but there is still a certain gap between the technological level of industries in which Taiwan businessmen invest and the technological level of industries in which Western developed countries invest.

3. Investments are centered in Fujian and Guangdong and are spreading into the interior from the coast. Fujian alone accounts for over one-half of the total of Taiwan investments on the mainland. The areas of Taiwan investments happens to be much the same as the areas of foreign investment. This is closely related to the advantageous investment environment of the open zones on the coast.

4. They are primarily medium- and small-scale wholly owned enterprises that get quick results and that tend toward the larger-scale. Single investments are generally under \$1 million, lower than the average investment (\$1.5 million) of the mainland's "three kinds of foreign-owned enterprises," and also lower than the average investment of Taiwan businessmen in other countries or regions. The scale of Taiwan businessmen's investment on the mainland will grow with economic development and high technological level regions and industries.

5. Taiwan-funded enterprises mostly use the "both ends abroad" management method; the average foreign sales rate of the products is as high as 85 percent, much higher than the 27 percent average foreign sales rate of the mainland's "three kinds of foreign-owned enterprises." In the long term, the mainland's 1.1 billion person market will undoubtedly become the focal point of consideration for Taiwan's investment choices, thus the foreign sales rate of goods produced by Taiwan-funded enterprises will tend to decline.

II. Analysis of Existing Taiwan Investment on the Mainland

The investment on the mainland by Taiwan compatriots differs both from domestic investment in general and from direct investment on the mainland by other businessmen. Thus, when analyzing the advantages and disadvantages one needs both to consider the impact of Taiwan investment on the mainland's economic growth as well as look at the political and social effects of Taiwan investment on the mainland.

1. Taiwan investment in the mainland benefits the early realization of the "Three Exchanges" on both sides of the Straits and accelerates the unification of the ancestral country.

The political effect of Taiwan investment on the mainland on the one hand is manifested bringing about the urging the Taiwan authorities to abandon the "Three No's" policy at an early date and accelerate the process of unification of the ancestral country through close interpersonal and trade relations on both sides of the Straits; on the other hand, the Taiwan authorities also hope to take advantage of Taiwan businessmen investing on the mainland to realize their goal of a "political beachhead" by means of an "economic beachhead."

Because the scale of Taiwan investment on the mainland is not large, Taiwan invests primarily in labor-intensive processing industries which are not key industries that the state must urgently develop, and Taiwan businessmen also for the most part choose the "both ends abroad" mode of management, industrial chain reaction is weak. Thus, in the near term, the clout of Taiwan investment on the mainland is limited. Even if Taiwan investment further increases, Taiwan will account for only a small part of total investment on the mainland; thus, it will be difficult for Taiwan authorities to realize their aim of influencing mainland politics through their investment in the mainland economy. Yet Taiwan can take the best advantage of circumstances and through investment on the mainland can realize the "three contacts" early, laying a foundation for unification of the ancestral land.

2. Taiwan investment on the mainland is good for growth of the mainland economy.

An analysis of the impact of Taiwan investment on the mainland economy should have the ultimate goal of Taiwan investment making a contribution to growth of the mainland economy. That is, it should both look at the impact of Taiwan itself on the gross value of the mainland economy as well as consider the impact of Taiwan investment on the mainland on other mainland "three kinds of foreign-owned enterprises" enterprises and existing mainland enterprises.

Viewed from the angle of promoting mainland economic development, the positive effects of Taiwan investment on the mainland are primarily manifested in: increasing the mainland's capital accumulation and supply of foreign exchange, expanding employment, improving mainland enterprises, especially the technological level of township enterprises, training talent, increasing tax revenue, and making the markets flourish. The primary defects are primarily manifested in: Taiwan-invested enterprises and mainland original enterprises competing for foreign sales markets, capital, and talent; mainland dependence on Taiwan for capital, employment, and products which under certain conditions can lead to

some unrest in the mainland economy. Taiwan's managerial mode of small scale capital, low technology, independent financing, and "both ends abroad," along with the problems that exist in the managerial process have weakened the positive impact of Taiwan investment on the mainland economy.

(1) Increasing forms of capital and supply of foreign exchange.

Taiwan investment on the mainland has increased the forms of mainland capital and the supply of foreign exchange, and has also increased the competitive match of existing mainland enterprises in the international market. Yet the small scale of Taiwan investment on the mainland and Taiwan businessmen's choice of the "both ends abroad" management mode have limited the positive impact of Taiwan investment on the mainland's capital form, foreign exchange supply and investment structure.

There has always been a shortage of savings and foreign exchange in the growth process of the mainland economy and the influx of Taiwan investment has made up for the inadequacy of capital and foreign exchange on the Mainland to some degree. By the end of 1989, Taiwan investment accounted for 2.97 percent of the agreed upon capital of direct investment from abroad absorbed by the mainland. The actual use of Taiwan investment accounted for 3.25 percent of actual used foreign direct investment. Although these two years Taiwan capital influx to the mainland doubled and redoubled, the proportion of mainland capital formation made up by Taiwan investment was still very limited. Even if all agreed upon Taiwan investment was used for investment in fixed assets, it would only account for 0.4 percent of that year's 400 billion yuan in the fixed assets investment completed on the mainland. Even in Fujian Province, where Taiwan investment is concentrated, the contribution of Taiwan investment to the fixed asset investment in Fujian was no more than 5.12 percent.

In terms of foreign exchange benefits, the influx of Taiwan investment had a very positive effect, but not much impact. In 1989, exports of Taiwan-funded enterprises in Fujian were \$150 million, accounting for 32.18 percent of the exports of the "three kinds of foreign-owned enterprises" and 9.3 percent of Fujian's exports. In 1989, exports of Taiwan-invested enterprises on the mainland were about \$400 million, accounting for 0.76 percent of mainland exports in that year. But since over 80 percent of Taiwan businessmen chose the "both ends abroad" management mode, after deducting the remission of Taiwan-invested enterprise profits and loss of taxes, the foreign exchange income and expenditure of Taiwan-invested enterprises made very little contribution to the mainland's international income and expenditure.

In addition, in the short term, competition between the products of Taiwan-invested enterprises and existing mainland enterprises in the international market did not

help exports of existing mainland enterprise products create foreign exchange. According to surveys, among the types of products of Taiwan-invested enterprises on the mainland and existing mainland enterprises that were competing in the international market, there were 295 in the United States, 88 in Japan and 246 in Hong Kong. Putting their capital in the coastal areas of Fujian and Guangdong and concentrating on export of such matched goods as fiber manufactures and shoes to the United States increased the mainland's trade gap with the United States. This "favorable shift" merits consideration since it not only influenced the issue of the most favored nation treatment the United States granted China in 1991 but also may endanger exports to the United States of textile and clothing by existing mainland enterprises.

In the present stage, although there are these problems, the contribution of Taiwan-invested enterprises to the mainland's international revenue and expenditure is still favorable. However, in the long-term, whether or not Taiwan investment will be favorable for the mainland's international revenue and expenditure will depend on whether or not the mainland continues to attract Taiwan investment and the competitive situation of products from Taiwan-invested enterprises and original mainland enterprises in the international market.

(2) Technology transfers that reap quick results and are of a fairly low level play a role in the technological upgrading of township enterprises, but have a limited positive impact on the technological structure mainland industry.

Because the mainland industries that Taiwan businessmen select for technology transfer are primarily of the labor-intensive processing type, the production technology used is fairly simple and adaptable. For this reason, the rate of technology transfer is very rapid and the mainland has the ability to absorb and digest the transferred technology so that frequently results are obtained in a short time. A survey of 70 production-type Taiwan-invested enterprises in Fujian shows that of the Taiwan-invested enterprises with equipment of a generally higher level than domestic enterprises, 61 had imported technology but only 46 actually used it and 18 imported patents and special processes. Although in the near term after Taiwan imports production projects with a highly intensive technology, such as precision digitally controlled machine tools, because the scale of Taiwan investment is small and emphasizes cheap labor and land on the mainland; thus, the technological level imported by Taiwan investment is fairly low and the independently invested management is not favorable for the absorption, digestion and dissemination on the mainland of the production technology brought in by Taiwan investment. This has determined that Taiwan-invested enterprises at the present stage will play a role in raising the technological level of mainland township

enterprises but will not have a major positive impact on the mainland production technological structure.

(3) The result is clearly increased employment. The employment effect of Taiwan investment has increased the number employed on the mainland, but it has also changed the mainland's employment structure, particularly in some regions, introducing competition with existing mainland enterprises for talent.

According to estimates, in 1989 the number of people employed in Taiwan-invested enterprises was about 240,000, the wages paid out was 686 million yuan, totaling 16 percent of the number employed by "three kinds of foreign-owned enterprises" on the mainland, 0.17 percent of the total number of employees on the mainland and 26 percent of the total wages in 1989. In 1989 Taiwan-invested enterprises in Fujian hired 92,400 or 3.65 percent of those employed in industry province-wide. Relative to the effects created by Taiwan investment in such areas a foreign exchange, capital, industrial linkages, the employment effect of the influx of Taiwan investment is even greater, especially in terms of Fujian, and this effect is clear.

The effects of employment from Taiwan investment means that the mainland relies a great deal on Taiwan investment, and, especially in areas where Taiwan investment is concentrated, the potential danger is considerable.

The people employed in Taiwan-invested enterprises are mostly females about 20 years of age. After a few years, when they get married and start families, the Taiwan businessmen will dismiss them. This will undoubtedly create a series of social problems for the mainland which does not have a very strong unemployment security system. In addition, because the work environment and benefits of Taiwan-invested enterprises are better than existing mainland enterprises, this undoubtedly will attract many trained workers and technological managers from mainland enterprises to Taiwan-invested enterprises. With the reform of the mainland's personnel system, the circulation of talented people becomes more brisk daily. And, with the constant expansion of the scale of the influx of Taiwan investment, the threshold of the technology that is transferred will get increasingly higher and the competition of Taiwan-invested enterprises with existing mainland enterprises for talented people will become more pronounced. As long as Taiwan-invested enterprises are more attractive than existing mainland enterprises, the reallocation of employed personnel caused by the influx of Taiwan investment in the short terms will impact mainland existing enterprises' managerial benefits. From the angle of promoting economic development of the mainland, since the economic benefits of Taiwan-invested enterprises are generally better than those of existing mainland enterprises, this redeployment of employed personnel will benefit the effective allocation of mainland resources and the growth of the mainland economy.

(4) The chain reactions are of varying strength.

In terms of the present stage, the industrial chain reaction of Taiwan-invested enterprises is very weak, the chain reaction of capital is somewhat stronger, and in the long-term, the industrial chain reaction may continue to get stronger.

Since Taiwan-invested enterprises for the most part use the "both ends abroad" managerial mode, their production and managerial activity does not have much impact on the supply and demand situation of the market for mainland goods. Thus, although the industrial chain reaction coefficient of Taiwan-invested enterprises is very strong, their industrial chain reaction is weak. This explains why the influential role of Taiwan-funded enterprises on mainland enterprises is very small but the potential for using Taiwan-funded enterprises to spur mainland industrial development is considerable. As Taiwan businessmen's interest in the mainland as a market for products and as a source of raw materials, the scale of Taiwan investment will grow and the industrial chain reaction of Taiwan-invested enterprises will definitely increase constantly.

As far as the capital chain reaction is concerned, the effect of current Taiwan-invested enterprises is better, relatively speaking, but the overall effect also may not be great. Ninety-five percent of Taiwan-funded enterprises that went into production in 1989 are profitable and the economic benefits are universally higher than "three kinds of foreign-owned enterprises" enterprises, so that the taxes and fees supplied to society by Taiwan-funded enterprises units is higher than the average level of the "three kinds of foreign-owned enterprises." Thus, the capital chain reaction of Taiwan-invested enterprises currently is correspondingly stronger. In the long term, since the overall technological level of Taiwan-invested enterprises is lower than "three kinds of foreign-owned enterprises," the economic benefits may be relatively lower. Thus, vis-a-vis the average degree of capital chain reaction of "three kinds of foreign-owned enterprises," the strength of the capital chain reaction of Taiwan-funded enterprises may weaken. Because the current scale of Taiwan investment is small, the capital chain reaction effect cannot be large. In addition, the problems of balancing the books abroad and avoiding taxes that exist universally with Taiwan-invested enterprises, greatly weaken the contribution of Taiwan-invested enterprises to society. According to statistics from Shishi City, in 1989, exports of enterprises invested in by foreign businessmen were nearly \$9 million, actual foreign exchange taken in was \$1.5 million, for an export foreign exchange earning rate of only 18 percent.

3. Impact of Taiwan investment on mainland society.

Taiwan investment in the mainland, along with the influx of capital and technology has also brought along Taiwan's enterprise management modes, concepts of value and lifestyle. On the one hand this is the modern commercial morality of pursuit of the up-to-date, competition first, and fair competition. On the other hand it

has also brought along the ideological and corrupt moral concepts of money first, and the pursuit of enjoyment. These may have a long-term and profound impact on people's mode of thinking, their concepts of value, and their ideological consciousness. Thus, the problem of how to get rid of the dross and assimilate the essence is one that merits serious study.

In addition, such problems in Taiwan-invested enterprises as corporal punishment of workers, encroaching on the lawful rights of workers, excessive pollution of the environment, and injuring the physical and mental health of the workers should be resolved as quickly as possible.

Synthesizing the impact of Taiwan investment on mainland politics, economy and society, one can hold that the advantages of Taiwan investment on the mainland are greater than the disadvantages. It not only can draw closer intercourse between the peoples on both sides of the Straits, increase their mutual understanding, and accelerate the early unity of the ancestral land, but it can also make up for the mainland's inadequacies in capital, technology and foreign exchange, promote the upgrading of the mainland's industrial, technological, and import-export goods mix and help promote the development of the mainland economy. But one should note that because Taiwan businessmen started investing in the mainland late and suffer under various restrictions from Taiwan authorities, the scale of Taiwan investment on the mainland is not large and the impact of Taiwan investment on the mainland's politics, economy and society is very limited at the present. With the Taiwan authorities announced an end to "mobilization to suppress rebellion" in May of this year, economic relations on both sides of the Straits will reach a new high tide, the scale of Taiwan investment on the mainland will increase rapidly and Taiwan's impact on the mainland's politics, economy and society may grow stronger. But this will not lead to control of the Mainland's political policymaking and economic pulse. Thus, the positive effect of Taiwan investment on the Mainland definitely may grow stronger.

III. Measures To Improve the Positive Effect of Taiwan Investment on the Mainland

On the basis of the goals of the mainland attracting Taiwan investment and the problems in Taiwan investment and combining this with the survey of the intentions of Taiwan businessmen, we should concentrate our future efforts on the following to improve the positive effect of Taiwan investment on the mainland: (1) leadership at all levels should make promoting unity of the ancestral land and speeding up economic growth the ultimate goal of attracting Taiwan investment; (2) as quickly as possible we should establish a strong and united authoritative management system, improve the efficiency of executive organs, improve managerial and service functions of Taiwan-invested enterprises, and ensure that the rights and interests of Taiwan-invested enterprises and their corresponding contribution to society are not diminished; (3) maintain stability, continuity and effectiveness of policy, grant formal approval in law of the policy of encouragement and priority

through lawful procedures and formulate the relevant implementing regulations and the necessary laws and stipulations; (4) further improve the financial environment, simplify foreign exchange calculation procedures, strengthen foreign exchange regulatory market and open credit channels.

'Taiwanization' of College Student Associations

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[Article by Ts'ao Yi-hui (2580 0110 2585): "All Taiwanese Youth Are Singing to the Tune of Taiwanization; Taiwan Studies Groups on College Campuses"]

[Text] While Taiwan's government authorities have been uniting behind the great cause of Chinese reunification, increasing numbers of Taiwanese college students are beginning to show an interest in Taiwan's native culture. Although those in power have been using various means to emphasize a consciousness of a unified China, many students of the younger generation growing up in Taiwan are more interested in learning about the past, present, and future of their small island homeland.

Since martial law was lifted, many taboos are gradually being broken, and the time of being punished for speaking Taiwanese or of being regarded as having a divisive mentality for talking about Taiwan's history is also gradually fading into the distant past. Growing out of student self-reflection and the student movement, student groups at various colleges and universities, such as "Taiwan studies groups," "Taiwanese language study groups," and a host of others whose theme is the study of Taiwan, have been springing up one after another like bamboo shoots after a spring rain. This shows that the seeds of Taiwanization have already sprouted among the younger generation of students.

These Taiwan studies groups at various colleges and universities can be roughly divided into those that were established before or after the student movement of March 1990. Most of those established before the student movement of March 1990 at colleges and universities such as Taiwan University, Ch'inghua University, Futa University, and Chungshing Law and Business College developed spontaneously out of interest in Taiwan. Most of the Taiwan studies groups at these colleges and universities have also taken a calmer and more pronounced academic research approach.

The Taiwan studies groups established after the March 1990 student movement at colleges and universities, such as Government University, Tungwu University, Chiaota University, Tanchiang University, and Maritime College, were organized mainly by members of the student movement. While they basically favor movement tactics, they avidly assimilate and study Taiwan's history and present conditions and think deeply about Taiwan's future when they are not actively involved in the student movement.

While these Taiwan studies groups at various colleges and universities were established at different times, almost all of them were established in the years since martial law was lifted. Although the existence of martial law restricted the freedom of students to learn about Taiwan, with an 18-year history, the Taiwan Culture Study Group [TCSG] at Wenhua University is the only exception. Student members of TCSG say that when Wenhua University first established this group, it was basically a subdivision in the department of history. One student said that the subjects that they studied at first were mainly Taiwanese customs and human relationships because they were not allowed to touch on issues that the authorities had made taboo. TCSG's first chairman, Ts'ai Hsiang-hui [5591 4161 6540], who is also its current guidance counselor, is now also working for the KMT [Kuomintang] party history committee. It is only because TCSG is entirely different in nature from such groups in other colleges and universities that it was able to exist during the closed period in the sixties.

Another of these groups that is rather special is the "Formosa Society" that was established at Central University. This group, composed of reform students, has succeeded in "usurping" the name of the Three People's Principles Study Group (TPPSG). While the TPPSG used to be classified as a "party organization," a number of "raging" students from underground organizations infiltrated it two years ago in 1989, turning it into a Taiwan interest group. When it applied to the university for a change of name a year ago in 1990, the university was forced to accede since the change-of-name resolution was passed at a general membership meeting. Whereupon, the KMT's party organization at Central University "was usurped by the enemy."

As the establishment of Taiwan studies groups in many colleges and universities is quite closely linked to the student movement, most college administrations are showing particular "interest" in such groups, even to the point where some are refusing to permit their establishment, thus forcing them underground. For instance, when the Taiwan studies group at Chungshing Law and Business College was established two years ago in 1989, it asked to be registered with the college, but was turned down on the grounds that this would violate the constitution. But when the students established it anyway and carried out activities just the same, the administration turned a blind eye. When Huang K'e-jen [7806 0344 0088], director of the student counseling office, was interviewed, he would only reaffirm that the group had been established, but would not clarify the administration's rationale for refusing to allow it to register as an official group.

In addition, while Government University finally approved the establishment of the Taiwan culture society six months after application, it gave the group no office space or activity expense allowance. When the establishment of the Taiwan studies group at Chiaota University was approved, even though this group was actively supported by Kuo Yi-hsiung [6753 5030 7160], Chiaota University's director of student counseling, some professors in charge of extracurricular activities told Kuo Yi-hsiung to his

face that he should be careful that certain people do not take advantage of the establishment of such a group. To which he replied, "If there are people who love Taiwan,

why not let them?" So the Taiwan studies group at Chiaota University was finally established successfully with the support of Kuo Yi-hsiung.

Table 1. A Brief List of the Major Taiwan Studies Groups at Various Taiwan Colleges and Universities

School	Name of Group	Group Leader	Guidance Counselor	Number of Members	Orientation	Remarks
Taiwan University	Taiwan Studies Group	Hsu Wei-te [6079 4850 1795]	Ch'en Tung-sheng [7115 2639 2573]	Over 20	Academic collection of Taiwan history data	There are also many other single-topic groups, such as the Formal Language Study Group, the Play-In-Hand Group, the College News Agency, the College Forum, and the Mainland China Studies Group.
	The Taiwanese Language and Culture Study Group	Hsieh Ming-ch'eng [6200 2494 1004]	Cheng Ch'in-jen [6774 2953 0088]		Studies written Taiwanese and participates in the student movement	
Government University	Taiwan Culture Society	Ch'en Chih-ming [7115 1807 6900]			The study of Taiwanese culture by all student groups	
Wenhua University	Taiwan Culture Study Group	Lin K'un-ch'ih [2651 0981 3069]	Ts'ai Hsiang-hui	Over 40	A quite conservative cultural orientation	Established for 18 years
Tungwu University	Taiwan Culture Study Group	Hou Chia-hsiung [0196 0163 7160]	Chang Yen-hsien [1728 3508 2009]	Over 30	A student movement organization for the study of Taiwanese culture	
Chungshing Law and Business College	Taiwan Studies Group	Ting Yung-yen [0002 0516 6056]	Lin Mei-jung [2651 5019 1369]		Student movement organization for the study of Taiwanese history and current conditions	In the midst of reelecting a group leader
Central University	Formosa Society	Ch'en Yung-k'ang [7115 3057 1660]	Hung Wei-jen [3163 1919 0088]	Over 30	Interested in Taiwanese culture, emphasizes campus reform, and participates in the student movement	
Ch'inghua University	Taiwan Studies Group	Chang Chin-piao [1728 6930 2871]	Hsu Cheng-kuang [1776 2973 0342]	40	Provides an arena for the exchange of views on Taiwan studies	
Chiaota University	Taiwan Studies Group	Ch'ueh Hsueh-ming [7076 3109 7686]	Ch'u Te-san [5969 1795 0005]	40	Began with an interest in Taiwan, but understands movement principles	
Ch'engta University	Taiwanese Language Study Group	Ts'ai Ch'eng-wei [5591 2110 4850]	Chien Chin-shu [4675 6930 2885]	10	Promotes Taiwanese language and studies	
Tanchiang University	The Tanchiang Forum	Lin Chau-kung [2651 3564 1872]	Ch'ien Ch'uan-jen [6929 0278 0088]	Over 20	Focused on Taiwan studies, and grew out of the Tanshui historic site	
Futa University	Taiwan Social Issues Study Group	Chuo Yu-mei [0587 3768 2734]	Wang Chen-wu [3769 7201 2976]	Over 20	Concerned with problems of Taiwan's irrational political and economic structures	
Tunghai University	Taiwan Culture Study Group	Ch'en Chien-hau [7115 1696 6275]	Wang Chen-huan [3679 2182 1403]	Over 10	Concerned mostly with Taiwan culture studies	Organized by Freshmen and Sophmores
Maritime College	Local Culture Studies Group	Huang Ch'i-chang [7806 7496 3361]		Over 20		
Northern Medical College	The Harlow Society	K'e Ch'ang-hung [2688 2490 1347]	Kuo Hsien-shou [6753 2009 1108]	Over 20	Interested in practical Taiwan studies issues, and indirectly involved in the student movement	

The Taiwan studies groups in the various colleges and universities can be roughly classified by activity as: 1) small study and discussion groups, 2) those that invite guest lecturers; and 3) those that take rural field trips.

The subjects of the study and lecture groups include Taiwan history, Taiwan folkways, Taiwan studies, and practice in speaking and writing Taiwanese. The texts most used for the study of Taiwan history are Shih Ming's [0670 2494] "400 Years of Taiwanese History" and Yang Pi-ch'uan's [2799 4310 1557] "A Brief History of Taiwan."

Students are also greatly interested in Taiwanese folk arts, such as folk songs and puppet plays. Many colleges vie to invite the singer Ch'en Ming-chang [7115 2494 4545], and students generally receive the courses in the teaching and performance of puppet plays very well.

Rural field trips are another specialty of these student groups. The establishment of the Taiwan social issues study group at Futa University was the outcome of a 1988 rural field trip by a group of students three years ago. In order to better understand the lives of the common people and study social issues, this group has taken a rural field trip focused on a different topic almost every summer and winter vacation since then.

The Taiwan studies groups at various colleges and universities often also run many kinds of study or living camps such as the "Taiwan Culture Camp" that is held during the spring break by the Formosa Society at Central University, the "Taiwan Culture Studies Camp" run by Tanchiang University, and the "Folk Art Studies Camp" run by Wenhua University.

In addition, the Taiwanese language is a subject of interest to the Taiwan studies groups at many colleges and universities. Some of these groups give courses in the Taiwanese language. Others at schools like Ch'engta University and Taiwan University even have independent Taiwanese language study groups, and the one at Tanchiang University is also planning to set up a Taiwanese language group next semester. The Taiwanese language study group at Ch'engta University was the first Taiwanese language group set up on a Taiwan campus. It was founded about three years ago in 1988 and was sponsored mostly by professors who organized it jointly with certain interested students. Chemistry Professor Lin Chi-hsiung [2651 4949 7160] is its major instructor. Since then, the Ch'engta University administration has begun to offer formal courses in the Taiwanese language for students in its departments of medicine and nursing.

Lin Chi-hsiung said that after the Taiwanese language study group was founded and he began to teach the Taiwanese language, he received many threatening phone calls demanding that he either stop teaching the Taiwanese language or not go out at night. This stopped only after the administration offered a formal course in the subject. Lin Chi-hsiung said that while he did not know the source of these threatening calls, they made

him aware that some people could not stand professors teaching the Taiwanese language on campus.

Not only Lin Chi-hsiung, but members of many other Taiwan studies groups, have also suffered such indignities. For instance, a member of the Taiwan studies group at Ch'inghua University said that when this group was first founded three years ago in 1988, no students even dared to ask whether it was a "Taiwanese independence group," and that it was only recently that anyone had asked this question. A member of the "Harlow Society" at Northern Medical College noted that some students have always treated his group as a Taiwanese independence group.

The number of people who equate Taiwan studies groups with Taiwanese independence has been gradually decreasing along with Taiwan's quickening pace of social progress. Except for certain diehards, most people are treating these Taiwan studies groups as an ordinary thing. However, there is a growing tendency for the Taiwan student movement and the Taiwanization of campus culture to join forces. A member of the Taiwan studies group at Ch'inghua University who is enthusiastic about the student movement remarked that every wave of the student movement clearly increases its membership.

The seeds of Taiwanization have now been planted in almost every Taiwanese college and university. While such groups may have few members, they are growing along with each wave of the student movement. For instance, as the ones at Taiwan University enjoy many exceptional advantages, they are growing faster and are gradually becoming established.

As Taiwan University has a much longer history of student movement than other schools and was considered a comparatively free university even under the closed, conservative, social atmosphere of 10 or 20 years ago, many of the Taiwan-oriented groups on its campus have become focused on the study of a single subject. For instance, in addition to the Taiwan studies group, it also has groups, such as the play-in-hand group, the Taiwanese language and culture study group, the formal language study group, the muddy stream (dealing with agricultural issues), and the labor group, plus ones with longer histories, such as the college news agency, the college forum, and the mainland China studies group. But as various types of groups are being established, Cheng Li-jun [6774 7787 0689], leader of the play-in-hand group, comments that there is a clear Taiwanization trend in all of the groups at Taiwan University. She notes that many of the groups are considering courses in Taiwanese history as mandatory ones for modern-day students, even to the point where the music society is beginning to study Taiwanese music, and the film society is beginning to shoot Taiwanese documentaries. She remarks that Taiwanization, having gone beyond the stage of being a slogan or a matter of recognition, has begun to take root among Taiwan University students,

Those in charge of the Taiwan study groups at many schools are very envious of the extent of such groups at Taiwan University. They express a determination to continue to promote Taiwan studies in their schools and a desire to enhance the mood of Taiwanization on campus.

While students are striving to learn about Taiwanese culture, the Ministry of Education is still publishing textbooks for all grades that are oriented toward Chinese reunification. There is a strong cultural generation gap. The older generation has a deep-rooted consciousness of China, and the younger is increasingly interested in Taiwan. This is causing increasing intergenerational tension which can only become increasingly wider.

In the words of a student movement leader, as a new-age culture is gradually evolving, the present campus culture is a clue to the path that Taiwan is likely to be following 20 years from now.

Analysis of Foreign Trade Structure

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[Article in special column by Hou Chiachu (0186 1367 7467): "Analysis of Taiwan's Foreign Trade Structure"]

[Text] Since 1987 the value of the new Taiwan dollar has risen greatly, with the result that major changes have occurred in Taiwan's foreign trade structure. These changes can be described in two aspects: 1) the evolution in the proportion (total) of trade regions; and 2) the change in import-export structure.

First, with regard to the former, for many years Taiwan's main trade regions were: first, North America; second, Asia; and third, Europe—this is shown by ranking the import-export volumes of the three different regions by their share of the total volume of import-export trade. Since 1987 there have been marked increases and decreases in these shares, and they have affected the listing in order of importance of these three regions. The table shows that export in 1986 North America's share was 50.9 percent, Asia's was 25.9 percent, and Europe's was 12.0 percent. However, beginning in 1987 there were marked changes, i.e., the former fell year by year while the latter two rose year by year. Speaking precisely, North America's share in the first five months of this year was 30.1 percent, a decrease over four years and five months of 20.7 [figure as published] percentage points. In the same period Asia's share rose to 41.1 percent and Europe's to 20.6 percent, a total increase by the two of 23.8 percentage points. In other words, in this ranking Asia has replaced North America as Taiwan's number one export market. Although Europe's ranking has not yet changed, its market share has greatly increased; it has risen in importance compared with North America: in a little more than four years ago, its share was less than one-fourth of North America's, but now it is two-thirds.

In import share Asia has from the beginning been first, with North America's being next and Europe's bringing up the rear. For more than four years the rankings have not changed, and also there has not been a big change in the shares of the former two, but Europe's import share is increasing. Contrasting the trade volumes of the three continent, in 1986 we had a favorable balance with North America and Europe, respectively \$14.365 billion and \$1.531 billion; we had an adverse balance with Asia of \$454 million. By 1990 we had a favorable balance with all three continents, in order: North America, \$9.854 billion; Europe, \$2.647 billion; and Asia, \$104 million.

There were many changes in these years in the trade commodity structure. In export products, in 1986 the three frontrunners were electronic products, textile goods (including yarn and cloth), and footwear. The proportion of each one's export value in the total value of trade was in order 17.3, 15.9, and 7.9 percent. By 1990 the three frontrunners were electronic products (including information and communications products), textile goods, and machinery, their proportions in order being 19.0, 15.3, and 8.6 percent. These simple data show that there are signs of progress in Taiwan's export commodity structure. The signs are that, in export proportion, technology-intensive and capital-intensive products are markedly increasing, especially the latter, because the proportion of machinery export in 1986 was only 4.0 percent. In another aspect, in this period there have been considerable changes in the three import commodities frontrunners. In 1986 the three frontrunners were electronic products, chemical products, and machinery, and in order their proportions in the total import value were 14.2, 2.4, and 10.0 percent. However, in 1990 the three frontrunners were electronic products (including information and communications products), mineral products (including crude oil), and basic metals and the products manufactured from them, their proportions in order being 13.7, 12.0, and 2.0 percent. This seems to show that domestic manufacturing standards are rising, and that there is an expansion of the use of primary products and intermediate products, especially of mineral products, because in 1986 the proportions of crude oil and metallic ore were respectively 6.4 and 0.6 percent, but in 1990 the proportion of imported mineral products was as high as 12.0 percent, of which crude oil alone accounted for 5.8 percentage points.

From a look at the trade commodities structure, we see that there is strong trade between industries, namely, in these four years electronic products, both in import and export, took first place. This can be shown not only in the demand aspect but also in the production aspect. It shows the dependency of the domestic enterprises on foreign parts or intermediate parts, and also shows the division of work in international production, in which there are both advantages and disadvantages. Although an analysis by the relevant authorities is needed, it is clear that domestic research and development need to be strengthened in this respect, and that the government

and the public should really spare no effort. As for the big increase in Taiwan's export of machinery, it is highly probable that this did not mean an improvement in the production technology of domestic machinery industry, and it is also probable that this was the result of the domestic enterprises' overseas investment—exporting old machinery. However, in the last four years the position of imported machinery has fallen behind the position of the three frontrunners, showing that the work by domestic industries of discarding old machinery and replacing it with new machinery is not yet completely ideal.

Taking another look at the changes in the trade regions, we see that Taiwan's trade with the Asian region has greatly increased, and this is shown in exports to Hong Kong and imports from Japan. Take the first five months of this year for example: exports to Hong Kong were worth \$3.664 billion (higher than the \$2.386 billion to America), but the unfavorable balance of trade with Japan was as high as \$3.586 billion. Given the export average to Hong Kong and the favorable balance of trade with the mainland, the export overage to Asia and the import overage from it are a worrisome problem.

Evolution of Import-Export Share of Taiwan's Main Trade Regions

Year	(1986 to May 1991) unit: percent					
	Asia		Europe		North America	
	export	import	export	import	export	import
1986	25.9	44.7	12.0	13.3	50.9	24.4
1987	28.0(46.4)	45.4(45.5)	14.5(65.2)	15.5(50.9)	47.1(24.3)	24.0(40.3)
1988	32.8(39.6)	42.2(33.1)	16.3(25.2)	16.1(51.6)	41.3(-0.8)	28.1(68.5)
1989	35.3(17..5)	44.5(11.2)	15.5(10.7)	16.0(4.8)	38.9(3.0)	24.9(-6.9)
1990	38.2(10.0)	43.6(2.5)	18.2(11.8)	17.5(14.4)	34.7(-09.5)	24.6(3.5)
1991 (January to May)	41.1(21.4)	45.1(22.6)	20.6(34.0)	16.8(0.1)	30.1(-7.3)	24.1(4.0)

Data source: Statistical Office, Ministry of Finance

Note: Figure within parentheses is the monetary growth rate.

Editorial Discusses Prospects for GATT Membership

91CE0704A Taipei CHING-CHI JIH-PAO in Chinese
22 Jul 91 p 2

[Editorial: "New Prospects for Taiwan's GATT Membership"]

[Text] As Taiwan is taking an increasingly active policy initiative in our relations with the PRC, the CPC's use of its "one country, two systems" policy to belittle us as a local government, and its application of sharp pressure on us in all areas, in order to weaken our international standing and reduce our basic overseas maneuvering space, is becoming increasingly obvious and hardline. We are helplessly watching the most important countries with which we have established diplomatic relations, either having already shifted toward establishment of diplomatic relations with the PRC, or in the process of actively signalling such intentions to the CPC. Even though we are still maintaining or expanding substantive foreign economic and trade relations with many countries, there is no denying the increasingly stronger threat of diminishment of our diplomatic standing.

Coming at such as moment, the news that U.S. President Bush is willing to support Taiwan's GATT membership as the Customs Territory of Taiwan and the Penghu, Quemoy, and Mazu Islands, is presenting us with the possibility of greatly strengthening our relations with many countries with which we do not have diplomatic relations. It is also giving us greater hopes that we will be able to join one of today's most important international

organizations, which will give us a better pipeline for participation in international economic and trade affairs, so that we can display our capabilities and sincerity in wishing to contribute to the joint welfare of the world, and to the further development of disadvantaged countries. This is really a key piece of news coming at just the right time, and may also be of the highest significance for Taiwan's GATT membership.

Of course, GATT membership itself would bring Taiwan economic benefits. Our foreign trade accounts for a very large percentage of our whole economy, and has always been the dominant and most important force in our economic development. Although our domestic sector is gradually beginning to play a stronger role, the vitality of our foreign trade still has a direct impact on our overall economic prosperity. But as we had regarded the U.S. as our most important export market for many years, and had long enjoyed the most favored nation (MFN) status that was granted to us by the United States, our most important foreign trade task was to do all that we could to increase our exports to the United States aimed at U.S. market demand. Thus, we neglected to develop other markets, while bringing on ourselves the following reprisals for the excessive increase in our favorable balance of trade with the United States: the cancelling of our MFN status, a large rise in the value of the Taiwan dollar in relation to the U.S. dollar, and the placing of harsh restrictions on exports of certain key products. While we finally reacted to this pressure by beginning to curb our exports to the United States and striving to open up other markets, we discovered that our awkward

political and diplomatic standing was making it impossible for us to acquire the same ideal trade standing with many countries that they had with each other, and that we lacked the force to improve this adverse situation through conducting bilateral negotiations one by one with our trading partners. Along with the continued integration of the EC, the active development of the North American Free Trade Zone (NAFTZ), and the increasingly closer cooperation among the ASEAN countries, our increasingly isolated predicament has been deteriorating steadily. This is making it hard for us to achieve significant political or diplomatic breakthroughs, so that joining the GATT has become almost the only way to change the status quo. GATT membership would enable us to automatically enjoy MFN status among the 120 GATT member countries, join up with other countries to resist unfair pressure imposed on us by certain trading partners, and reverse certain poor conditions that we are now subject to.

But the trade advantages of GATT membership would certainly not come without a price. In order to gain the support of two-thirds or even more of its members, we would have to exert all of our efforts to consult with them one by one. In addition to the manpower and material resources required for this consultation process, we would also likely have to concede many exchange terms. The vicissitudes of our current diplomatic predicament mean that this price would certainly not be low. Many domestic dissidents who are in a bitter struggle with the government, attacking it for the diplomatic crime of "cash diplomacy," would certainly have even more opportunities to make loud, plausible, and at length criticisms. This is another part of the price that we would have to pay.

An even greater price would be our longstanding key policy measure of using trade terms to guide our economic development, industrial adjustment, trade balance, and even our diplomatic policy on Mainland China. Once we acquired GATT membership, or even during the premembership examination process, the GATT would certainly require us to conform to the member nation code of conduct, by giving up many of our intervention measures in areas, such as tariffs, import restrictions, price subsidies, and foreign exchange controls. We must consider the great future obstacles that giving up these key measures would present to the enforcement of many key policies. Leaving aside for the moment the positive objectives that we had hoped to achieve through the use of these measures, the negative aspect of suspending these longstanding policies would be immediately serious shocks, which would hit agriculture first. Once an agreement on farm subsidies is reached at the Uruguay Round, our lowest-key application for membership would be bound to bring the strictest demands. As Taiwan's agriculture is already on the verge of extinction from decades of wrenchingly partial policies, it would be hard to calculate the harm that would be done by not planning as quickly as possible a set of appropriate remedies to guide it.

Taiwanese-Japanese foreign economic and trade relations would be another difficult problem. As many discriminatory and defensive trade practices are making it hard for us to contain our still sharply increasing trade deficit with Japan or penetrate Japanese economic might, it would be very hard to imagine what might happen if these practices were eliminated one by one. As to our Mainland China policy, since our most-embraced "three no's" policy (no contacts, negotiations, or compromises) is almost impossible to maintain now, how would we be able to keep any control once Taiwanese-PRC foreign economic, trade, and political relations would inevitably begin to develop uncontrollably?

We ought to be very happy that the rapid economic liberalization that we carried out in recent years, before we were truly confronted with these difficult problems that might come with GATT membership, has already eliminated most of our protectionist policies in areas such as tariffs and import restrictions, so that our overall economy has begun to pass out of its more difficult phase. Thus, we can still face up to these harder new problems more tolerantly. We ought to be even happier that most of our many former economic structural deviations and industrial development shortcomings were caused precisely by improper protectionism and interference. As we were under no outside pressure, we were complacent, conservative, and unable to make thorough adjustments or achieve correct guidance. Our farm, Mainland China, and foreign exchange control policies all basically fall into this category. That we are now forced to use the maximum determination and make maximum efforts, and that we still have plenty of time and economic might to do these things that should have been done long ago, is not a price of GATT membership, but rather an additional bonus.

Thus, we could practically call the current possibility of gaining GATT membership a major turning point for our economic reform, which we could reasonably go all out for. We should take active foreign policy steps to gain the support of all GATT member nations, while focusing our domestic policy on a thorough examination of the deep and far reaching interference in and controls over all aspects of our economic policies, industrial structures, politics, and diplomacy that have tormented us like ulcers for almost four decades. Thus, even if we do not acquire GATT membership in the immediate future, we will still have benefited considerably.

Editorial Views PRC Trade, Assistance for Businessmen

91CE0704B Taipei CHUNG-YANG JIH-PAO
in Chinese 24 Jul 91 p 3

[Editorial: "The Taiwan-PRC Foreign Economic Relations and Trade Situation Should Be Acknowledged, By Drawing Up Appropriate Measures To Assist Taiwanese Businessmen on Mainland China"]

[Text] Statistics released by the Ministry of Economic Affairs on 20 July 1991 show that Taiwan's overseas orders increased steadily in June 1991, reaching \$6.36 billion, or 14.5 percent more than those for June 1990. It is worth noting that Taiwan's June 1991 orders from Hong Kong were 85.77 percent higher than those for June 1990, surpassing those from Europe and Japan, and making Hong Kong Taiwan's second largest source of export orders, next only to the United States.

It is well known that this increase in exports to Hong Kong really means an increase in exports to Mainland China, and that Hong Kong's becoming Taiwan's second largest export zone shows a further development in Taiwan-PRC foreign economic and trade relations.

The source of the development of Taiwan-PRC foreign economic and trade relations in recent years can be traced to the economic reforms carried out on mainland China since the late 1970's. The record shows that while the Taiwan-PRC indirect trade turnover amounted to only some tens of millions of U.S. dollars in 1979, it had rapidly increased to \$4 billion by 1990. As far as trade theory is concerned, such rapid growth of Taiwan-PRC trade is certainly not surprising, as it was caused mainly by the huge price differences between various Taiwan and PRC resources, such as land, labor, commodities, and raw materials, which price differences are the major inducement for trade. While Mainland China was a closed economic and social system before 1979, so could not have mutual relations with any of the economies on its periphery, mutual foreign economic and trade relations have become possible since it began to reform and open up to the outside world. Taiwan-PRC trade has developed quickly due to the huge price differences, and indirect investment has come on the heels of this trade. Therefore, Taiwan-PRC foreign economic and trade relations can be fully explained by market forces.

The current issue is that, while the bilateral economic benefits from trade that is in keeping with market laws may be deceptive due to whether or not it is really mutually beneficial, economic benefits are obviously not equivalent to national benefits. As far as Taiwan is concerned, even though the steady growth of Taiwan-PRC trade and investment is only indirect, it still causes the following major misgivings:

1. It causes a steady increase in export dependence. While Taiwan-PRC indirect trade accounted for less than 2 percent of Taiwan's exports up to 1988, this percentage has been increasing rapidly in the last three or four years, being 2.4 percent in 1989, 4.8 percent in 1990, and already more than 5.5 percent for the first half of 1991. This increasing export dependence on Mainland Chinese markets has recently been causing concern among all circles.

2. It causes a nonreciprocal reliance on production factors. It is understood that Taiwan and Mainland China currently have different investment climate advantages for foreign economic relations and trade.

Mainland China's advantages are cheap land and labor, while Taiwan's are money and technology, which has formed a mutually complementary investment climate for Taiwan-PRC foreign economic relations and trade. But it is worth noting that Mainland China's land and labor advantages are stationary production factors, while Taiwan's money and technology advantages are portable ones. Their mutual complementarity means that Taiwan must "move" its portable money and technology to Mainland China's stationary land and labor. While this is apparently a reciprocal reliance on each others' production factors, it is actually nonreciprocal and slanted. Moreover, this nonreciprocal and slanted reliance is the cause of the next misgiving.

3. It causes political and economic conflicts for Taiwanese businessmen on Mainland China. As increasing numbers of Taiwanese businessmen must use Mainland China as their production and even R&D base, their economic interests will obviously lead to closer Taiwan-PRC geopolitical and economic relations. Taiwan is basically a democratic society, or, more specifically, one in which political and economic forces affect each other frequently. Thus, whether the concurrent role that "Taiwanese businessmen" are forced to play in Mainland China's regional interests will have an impact on Taiwan's political climate, and thus on Taiwan's Mainland China policy, is a question that should cause great concern.

In light of these misgivings, the Taiwan Government's foreign economic relations and trade policy toward Mainland China has always been very cautious, methodical, and orderly. This awareness has left nongovernmental causes invariably out in front of government policy. In October 1990, the Taiwan Government announced that Taiwanese businessmen could make indirect investments in Mainland China, giving them a six-month deadline for reporting such investments. By the reporting cut-off date at the end of April 1991, 2,503 Taiwanese businessmen had reported such investments. This reporting has left the problem of how to assist and control those who have reported and those who have not. It is understood that Taiwan's Ministry of Economic Affairs and the departments concerned have set up a group with the special responsibility of studying and expediting this matter.

This will involve the following difficult policy planning questions:

1. Should those who have not reported be "penalized," if so how, and can responsible materials and economic departments fully control them?

2. Should those who have reported be "rewarded," and if so would it conflict with the current policy of not encouraging (while not forbidding) indirect investment in mainland China?

It may be precisely such difficult questions that have left responsible departments still unable to come up with a

set of effective measures with which to assist and control Taiwanese businessmen on Mainland China.

We think that penalizing those who have not reported would certainly present technical difficulties, while rewarding those who have would hardly be consistent with current policy. A more appropriate way would be to provide certain "outside" services to those who have reported. While such services would not be equivalent to land tax reductions or exemptions or interest subsidies and thus, would not be of the nature of a reward, they could certainly be of substantive help to Taiwanese businessmen on Mainland China. For instance, responsible departments or nongovernmental specialists in various fields, such as network law, accounting, and financial management, could patrol Mainland Chinese areas where Taiwanese businessmen are concentrated, and provide various management and advisory services. We believe that this may be acceptable as the most expeditious method in the current stage that would not violate Taiwan's foreign economic relations and trade policy toward Mainland China. As it could not only resolve the operating difficulties of individual "Taiwanese businessmen," but also establish ties and pipelines between "Taiwanese businessmen" and their responsible departments, as well as among "Taiwanese businessmen," it is hoped that policymakers will give it active consideration.

Columnist Analyzes Trade Opportunities, Problems

91CE0717A Taipei CHING-CHI JIH-PAO in Chinese
29 Jul 91 p 3

[Article by Hou Hsieh-Wen (0186 1400 0795): "Foreign Trade Improvements and Crises"]

[Text] While I noted the great changes that have occurred in the specific regional and commodity percentages of Taiwan's foreign trade in my special column entitled "A Structural Analysis of Taiwan's Foreign Trade" that was published in early July 1991, the space limitations on that article prevented me from making a thorough analysis of these changes, so I have written this article as a special supplement to it. These changes have revealed the many improvements in Taiwan's foreign trade, with such so-called "improvements" naturally referring to the following encouraging phenomena that have appeared in Taiwan's foreign trade in recent years.

1. The sharp drop in the percentage of our exports to North America in the last four years or so, actually shows Taiwan's decreasing dependence on the United States for export markets. While Taiwan's exports to the United States had always accounted for the biggest percentage of our gross export value, reaching a high of 48.8 percent in 1984 and still being 47.1 percent in 1986, this percentage has dropped to 28.1 percent for the first half of 1991. While the United States had been making many demands on us in recent years, mostly about our trade surplus, which had been rattling our public and

private nerves, the sharp drop in our current trade surplus will naturally reduce such pressure.

2. The percentages of our import and export trade with Europe have both been increasing steadily, and that of our export trade in particular. Moreover, as Taiwan ranked first among Asia's four little dragons in exports to the EC in 1990, our Foreign Trade Office has been very proud of itself. As it is predicted that in five years our foreign trade turnover with Europe will be roughly equal to that with the United States, it is obvious that even if Europe cannot replace our U.S. markets, it will still be on a par with them, which will enable Taiwan to virtually pay equal attention to European and U.S. markets.

3. The changed percentages of our export merchandise also show that our industrial structure is changing in the desired direction. That is, technology-and capital-intensive goods are accounting for an obviously increasing percentage of our exports, while labor-intensive ones are accounting for a progressively decreasing percentage of them.

These improvements show the response of Taiwanese businessmen to the rise in the value of the New Taiwan dollar, our increasing wages, and our competitive lag. The first two improvements can be said to be a result of the rise in the value of the New Taiwan dollar. While the rise in the value of the new Taiwan dollar in relation to the U.S. dollar has naturally reduced our exports to the United States, the smaller rise in the value of the new Taiwan dollar in relation to certain other strong currencies has decreased the percentage of our exports to the United States, while increasing the percentages of our exports to Europe and Asia. The third improvement was due to the dual pressure of rising wages and foreign competition, which forced us to look for ways to upgrade our industry. While these improvements have naturally raised our hopes, they may also be concealing the following crises:

1. The drop in our percentage of trade with North America has increased our dependence on Asia. In particular, it has made us too dependent on Hong Kong for exports and trade surpluses, and too dependent on Japan for imports. For instance, in the first half of 1991, our trade surplus with Hong Kong reached a high of \$4.704 billion, or 18.3 percent of our overall trade surplus. Moreover, as our trade with Hong Kong is mostly trade with Mainland China, our growing dependence on Hong Kong is naturally causing both public and private concern in Taiwan. Thus, Premier Hao recently directed the Ministry of Economic Affairs to study ways to prevent too much economic dependence on Mainland China.

2. The European Free Trade Association, composed of the 12 member nations of the EC and the seven Northern European countries, is going to sign an agreement soon to establish a Pan-European free trade zone for personnel, material, labor, and capital circulation, and Europe is going to become a single market in 1993. These

actions are going to put a new face on things, and may place certain economic restrictions on countries outside of this regional organization. If Taiwan does not make appropriate public and private responses to this, our current European trade successes may be brief and sharply reversed.

3. As to our percentages of export merchandise, while machinery exports have won all of the medals in this contest, this may be due to exports of old machinery driven by foreign investment, which are certainly no substitute for the vigorous development of Taiwan's heavy industry. Moreover, as to our electronics products that rank first as to both imports and exports (whose orders have recently been surpassed by the textile industry), it should also be noted that Taiwan's electronics industry is still mostly in the assembly stage, and has not made any genuine S&T breakthroughs. In other words, this crisis may show that Taiwanese industry has not been truly upgraded, and may also be why nongovernmental investment has been so sluggish in recent years.

However, we may be mistakenly overconcerned about the first crisis. While our trade deficit with Japan has been increasing year after year, the percentage of our imports from Japan has been more or less decreasing. For instance, while this figure was 36.0 percent in 1986, it was only 29.2 percent for the first half of 1991. There may also be another misconception as regards Taiwanese-Mainland China trade. For instance, while Taiwan statistics for the first quarter of 1991 show that our Hong Kong exports and imports amounted to \$2.394 billion and \$461 million, respectively, for increases of 48.7 percent and 41.7 percent, respectively, and an overall trade turnover of \$2.855 billion, Hong Kong government statistics show the Taiwan-Mainland China trade turnover as \$8.4875 billion HK, or less than \$1 billion (less than one-fourth of our trade with Hong Kong), i.e., Taiwanese exports of \$877 million and imports of \$165 million, for increases of 33.9 percent and 43.3 percent, respectively. Therefore, the true state of Taiwan-Mainland China trade should be studied thoroughly, in hopes that the true statistics can be found and understood.

As to Premier Hao's directions, the Ministry of Economic Affairs should proceed only on the basis of giving advance warnings. It should persuade manufacturers and business firms that have exceeded upper import and export limits to exercise self-restraint on ethical grounds, instead of taking stronger actions. This is because the current Taiwan-Mainland China trade is indirect, the concerned authorities are having real trouble controlling it, these so-called advance warnings would be actually based on Hong Kong statistics alone and, as stated above, Taiwan-Hong Kong trade is certainly not equivalent to Taiwan-Mainland China trade. Even if the concerned authorities had all of the statistics under control, they still should not place too many restrictions on Taiwan-Mainland China trade. This is because that would violate the basic spirit of the GATT on free trade and discriminatory trade practices. As Taiwan is in the

process of making plans to join the GATT, we really should not deliberately complicate the issue by trying to save a little only to lose a lot. Moreover, if we are afraid of too much foreign economic relations and trade dependence on Mainland China, we might as well open up our markets to imports of certain mainland products, in order to encourage Mainland Chinese economic dependence on Taiwan.

Editorial Discusses BCCI Fraud

91CE0717B Taipei CHING-CHI JIH-PAO in Chinese
31 Jul 91 p 2

[Editorial: "The Impact of and Lessons Learned From the BCCI Fraud Case"]

[Text] The Bank of Credit and Commerce International (BCCI), which ranked about 150th among world banks, was closed down a few days ago by countries, such as Britain, the United States, France, and Germany. As this is a complex case involving a huge amount of money and dozens of countries, it is not only having an impact on financial circles, but is also shocking banking authorities, in all countries. While the real extent of Taiwan's losses is yet to be investigated, this case of fraud is teaching valuable lessons to Taiwan's banking authorities, foreign exchange banks, and export manufacturers and business firms. The BCCI system was founded in 1983, with its general headquarters set up as an international bank in Luxemburg. After it was founded, it expanded very quickly, so that by the time it was shut down by the above-named countries, it had assets of more than \$20 billion, ranked about 150th among the world's 500 biggest banks, and had branches in 70 countries throughout the world, and also in Taipei. While the details of this case have not yet been announced officially, the U.S. Federal Reserve Council announced on 28 July 1991 that it was fining BCCI \$200 million, and the New York Regional Prosecutor's Office has brought suit against BCCI's two founders on charges, such as money laundering, falsifying bank records, and bribing officials.

BCCI's Taiwan branches were responsible only for tasks such as making business contacts and collecting information, and certainly did not engage in international business, such as savings and loans. Thus, when BCCI was first closed down by various countries, as it had certainly not caused many direct losses in Taiwan, it did not arouse much concern. But when BCCI's Hong Kong operations were disciplined and suspended by the Hong Kong Government, which caused direct losses for Taiwanese manufacturers, business firms, and certain banks, concerned Taiwanese departments, including the banking authorities, began to pay serious attention to BCCI.

It is reported that the direct losses sustained by Taiwanese manufacturers and business firms from the closing of BCCI involved about 400 savings accounts amounting to more than \$50 million, while most of the

indirect losses involved mortgages or remittances. As far as Taiwan's foreign exchange banks are concerned, except for the Huanan Bank that suffered more because it had a savings account in the Hong Kong branch of BCCI, other Taiwan banks sustained only slight losses in the areas of mortgages and remittances. As our central bank never had any foreign exchange reserves in BCCI, it suffered no direct losses.

Since the BCCI fraud case was exposed, and since the Hong Kong branch of BCCI was shut down in particular, the reactions by various parties have been varied. The Ministry of Finance's Banking Office has called on manufacturers and business firms to set up systems to determine the credit ratings of foreign manufacturers and business firms, when internationalizing their enterprise operations. The central bank has indicated that it would take advantage of the lessons learned from this case of fraud by more closely supervising the business operations of overseas branches of Taiwan banks and foreign bank branches in Taiwan. Certain foreign exchange banks have been shocked by the closing down of the world's 150th ranked bank. And many manufacturers and business firms have been even more alarmed by the possibility of collapsing accounts due to fraudulent credit certifications by such a large world-class bank. But we think that the BCCI fraud case has really taught banking authorities, foreign exchange banks, and manufacturers and business firms various lessons, the most noteworthy being as follows:

1. In addition to strengthening their control over both Taiwanese and foreign bank branches in Taiwan, the banking authorities should also strengthen their control over Taiwanese bank branches abroad. As the numbers of foreign bank branches in Taiwan and Taiwanese bank branches overseas have been increasing steadily in recent years, supervision of their operations must be strengthened. In particular, supervision and auditing must be enhanced for overseas branches of Taiwanese banks and international bank branches that conduct external banking operations in Taiwan.

2. Taiwanese foreign exchange banks have always over-emphasized size of operation, such as banks in the top 500 or top 100, in their selection of foreign banks with which to do business. While this method of selection may be simple and convenient, it is unable to distinguish quality. Even though BCCI was a large international bank that was ranked as one of the 150th biggest banks in the world, it was still shut down by the governments of many countries because of its flagrant crimes. When selecting foreign banks with which to do business, it is absolutely necessary to analyze their finances and operations and assess their credit ratings, instead of judging them simply by size.

3. When conducting foreign trade, manufacturers and business firms must not rely 100 percent on the credit certifications presented by foreign banks. Most Taiwanese export manufacturers and business firms rely too much on credit certifications, especially by considering

credit certifications presented by international banks as absolutely reliable "payment guarantees." Even with credit certifications presented by banks, it is still necessary to investigate the credit ratings of overseas importers. Otherwise, it is hard to recoup goods payments when the certifying banks run into trouble. Even if there is no trouble with certifying banks, choosing foreign manufacturers and business firms with good credit ratings is still the key basis for steady business growth.

In light of today's conditions in which all parties are vigorously promoting banking liberalization and internationalization, even though the BCCI case is having a great impact on the banking authorities, foreign exchange banks, and export manufacturers and business firms, it is also teaching timely and very alarming lessons. It is deeply hoped that the banking authorities, foreign exchange banks, and export manufacturers and business firms will learn the lessons taught by this case of fraud by examining their respective operations. If deficiencies are found, quick improvements should be planned.

Export-Processing Zones Show Growth

OW1008174691 Taipei CHINA POST in English
7 Aug 91 p 6

[Text] The first half of this year was a bonanza for the three export processing zones under the Ministry of Economic Affairs.

Investments in the island's three zones, in Taichung, Nantze and Kaohsiung, went up US\$61 million in the January-June period. As of now, the three zones have courted ventures worth US\$857 million, the Export Processing Zone Administration reported yesterday.

Four new firms were established in the Kaohsiung zone, and two each registered in the Nantze and Taichung zone administrations, though 15 plants shut down in the period.

External trade from the three zones amounted to US\$2.866 billion in the six-month period, a healthy growth of 13.72 percent if compared with the corresponding period of 1990.

Electronics products took 74 percent of the total exports. Other major export items included garment, optical products, machinery and metal products.

More than US\$800 million worth of products were shipped to the Asian region, making it the largest market of the three zones. North America came in second and Europe ranked third.

The zones were set up in the 1960s to woo investment and expand exports with tariff exemptions and cheap labor.

But the role of the zones are shifting in tandem with the restructuring of Taiwan's industry. Under the current policy, 50 percent of the products made in the zone are allowed access to the local market.

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