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JPRS-CAR-91-002

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16 January 1991

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19th-Century Diplomat Hailed as Protector of Territory

91CM0146A Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 22 Nov 90 p 2

[Article by Liu Wei (0491 0251): "The Diplomat Who Snatched Food From the Mouth of a Tiger—Zeng Jize (1073 4764 3419)"]

[Text] In the modern history of Chinese diplomacy, most of the treaties that China signed with foreign powers surrendered national sovereignty under humiliating conditions. Only the treaty that envoy Zeng Jize [1073 4764 3419] signed with tsarist Russia, the "Sino-Russian Ili Treaty" (also known as the St. Petersburg Treaty) regained some sovereignty for China.

Zeng Jize (1839-1890), who also styled himself Ji Gang [0512 0474], came from Xiang Township in Hunan Province. The son of Zeng Guofan, he was an outstanding contemporary Chinese diplomat. In 1864, when Xinjiang rose in rebellion against the Qing dynasty, feudal chieftains and religious leaders took the opportunity to set up a kingdom there. For a time, the Qing government lost control over most of the Xinjiang region. Tsarist Russia, which had long coveted Chinese territory, dispatched forces in July 1871 under the pretext of "protecting Russia's borders" to occupy by force the strategic Ili area in northwest China. They also duped the Qing government, saying that they had "recovered the land on their behalf," and that they "had no intention of occupying it for long."

Acting on the advice of General Zuo Zongtang, in 1875 the Qing government commanded him to dispatch forces to Xinjiang to sweep everything before them. By 1877, Xinjiang was substantially pacified. Then tsarist Russia went back on its word, refusing to hand over Ili.

In October 1878, the Qing government Ministry for the Dispatch of Envoys sent [Manchu grandee] Zuoshilang Chong Hou to Russia for talks, demanding that tsarist Russia live up to its promise to return Ili. However, in response to the combined threats and blandishments of tsarist Russia, the muddleheaded Chong Hou unauthorizedly signed the so-called Livadia Treaty (also known as the Treaty to Turn Over Ili) in October 1879. The conclusion of this treaty enabled Russia "to obtain things" from China "far greater than what it might have obtained by being willing to risk war."

This traitorous behavior on the part of Chong Hou shocked the Chinese court and public alike. The Qing government refused to recognize and approve it, and it removed Chong Hou from office and detained him for questioning. Zeng Jize, who had been appointed minister to Great Britain and France, became an imperial envoy who returned to Russia for talks.

Complex and difficult negotiations lasted for more than seven months from July 1880 until the formal signing of the "Sino-Russian Ili Treaty" on 24 February 1881. The

adversaries Zeng Jize encountered during this period were the Russian Acting Minister of Foreign Affairs Ji-er-si [0679 1422 2448]; Re-mei-ni [3583 2734 1441], Ministry of Foreign Affairs adviser; Bu-ce [1831 4595], minister to China; and Mei-ni-ke-fu [2734 1441 4430 3940], Ministry of Foreign Affairs Asia Section deputy director; all of whom were wily and unscrupulous old diplomatic hands. Zeng Jize acted calmly and deliberately, and with awe-inspiring righteousness. He "repeatedly argued" with them "in a battle of millions of words," fiercely crossing swords with them.

At the beginning, Ji-er-si was "impassive and surly." He refused to negotiate. Zeng Jize defended China's position with reason on his side. He said that "treaties of all countries must be approved by both countries before they can take effect, and if there are sticking points in treaties that have been signed, they may be renegotiated" in refutation of Ji-er-si's fallacious theories. Subsequently, Zeng Jize took the initiative in drafting six demands for revision of the Livadia Treaty, which he sent to the Russian Ministry of Foreign Affairs. After reading it, Ji-er-si roared, "This completely contradicts the previous treaty." In replying to Zeng Jize's followup inquiries, they created unreasonable difficulties, refused to negotiate in St. Petersburg, and said that the talks should be held in Beijing. Zeng Jize argued strongly on just grounds, with the result that negotiations continued in Russia. The adversary then played the old "gunboat diplomacy" tactic, using the threat of armed force and issuing ultimatums to the Chinese. They openly demanded that China vow never to seek the return of Ili. Zeng Jize remained calm, inspired awe by upholding justice, and dealt calmly with them. They found themselves unable to advance further arguments to justify themselves. When one stratagem failed, the adversary produced another despicable stratagem, demanding that "our country must be compensated with some other place," and asking, "which place on the China coast can be ceded?" Zeng Jize adopted a stern countenance and replied, "I believe that henceforth there will be no further ceding of Chinese territory." The adversary again used the old tune of threatening war, but Zeng Jize acted neither obsequiously nor haughtily, but rather replied sternly out of a sense of justice. "I will say something frankly that might dispel your country's doubts. When China seeks the return of Ili in the future, if both countries are living in peace as neighbors, China will seek its return politely during negotiations, and your country will reply politely. Should it happen that the two countries are estranged, China will use the threat of force to recover the land. In that case, might it not seek other territory, not just Ili alone?" General Zuo Zongtang took a coffin with him on his military campaigns, and this Qing general's vow to die recovering the country's territory gave the adversary pause. After it had exhausted its bag of tricks, the adversary was still unwilling to yield. It asked in a note that China indemnify military expenses. Zeng Jize asked, "If Russia seeks indemnification for military expenses from China, please may I ask what country will indemnify China for troop-provisioning

expenses?" He also said curtly, "Military expenses cover a multitude of things. China cannot consent." Although it had coupled threats with promises and resorted to every venomous scheme, tsarist Russia gained nothing, and finally agreed to the revision of seven parts of the original treaty. Zeng Jize telegraphed the news to China while setting about negotiating a French language treaty draft with Bu-ce, arguing word by word, carefully weighing and deliberating. Though they were peaceful negotiations, it would not do to be careless. After the Qing government appointed him to sign the agreed upon treaty, another half

month passed before the French language treaty draft was settled. He was extremely thorough in his thinking.

Because of special historical circumstances, the newly signed Sino-Russian Ili Treaty did not completely overturn the Lavadia Treaty. It too was an unequal treaty. Nevertheless, by comparison, except for China's payment of a 4 million ruble indemnity to Russia, it regained some of China's sovereignty over boundary and commercial matters. In contemporary Chinese diplomatic history, this was something difficult to attain, and was positively no ordinary feat.

Separation of Central, Local Authority Explored

91CM0098A Beijing GAIGE [REFORM] in Chinese
No 5, 20 Sep 90 pp 132-138

[Article by the Comprehensive Reform Experiment Department, State Commission for Restructuring the Economic System: "Some Thoughts on the Separation of Central and Local Governmental Authority"]

[Text] Handling correctly the relationship between the central and local governments and separating properly the economic, social, and cultural responsibilities and jurisdictions (or authorities) of the central and local people's governments at all levels will always be an important part of the restructuring of China's economic and political systems. Since the founding of the PRC and during the decade of reform, China has made on several occasions major revisions of the relationship between the central and local governments. Practice proved that the correct handling of the relationship between the central and local governments and the scientific delineation of their authority, especially the separation of their economic management functions and powers, not only have a direct effect on the central government's authoritativeness and the local governments' enthusiasm but also a major impact on the country's political unity and stability.

The correct handling of central and local relations is founded on the separation of central and local governmental authority.

After a decade of reform, as more and more authority is delegated to the localities, the pattern of rigorous centralization where the local governments were expected to carry out central orders passively is beginning to change; local governments and enterprises are beginning to play a more active part. This has given rise to a new interest pattern and has facilitated economic development. But the series of measures to streamline the government and delegate power have not really straightened out the jurisdictional relationship between the central and local governments. In particular, while we work on the dynamic mechanism of economic development, we fail to build a constraining mechanism that integrates responsibilities, rights, and privileges. This has produced some new conflicts and problems. Primarily: 1) The central government's macro regulation and control capabilities have clearly diminished, and most attempts at managing the economy have resulted in a vicious cycle where control means rigidity and decontrol brings chaos. 2) The phenomena of carving up the market, pitching the central and local governments against each other, and putting up regional blockades are widespread. They impede the process of setting up a national, unified market. 3) Too often, the central and local governments get in each other's way and invade each other's jurisdiction. Functions and authority are revised arbitrarily. On the one hand, relevant departments of the central government interfere in local affairs recklessly, undermining the local governments' functions and authority. On the

other hand, local governments are bent on devising countermeasures to the central government's every measure and are prone to take shortsighted measures, and as a result, some of the state's policies and orders cannot be implemented. 4) Development in different regions is becoming increasingly uneven.

During the initial stage of socialism, China lacks mature objective material conditions to draw a clear line between central and local authority and formulate a scientific and ideal system. This is mainly because: 1) Viewed from the government's functions, because the market is still underdeveloped, because it is as yet difficult to separate government from enterprises, because asset management and socioeconomic management functions are mixed up, and because various social organizations are poorly developed, for some time to come, the Chinese Government must perform more economic functions than governments of the well-developed countries. Local governments in particular have their innate general authority but must also take on many transitional duties. 2) Viewed from regional conditions, different regions have different conditions and face different problems, and therefore they do not necessarily perform the same functions or require the same authority. In separating central and local jurisdictions, we cannot standardize things overnight, nor can we allow too much policy or jurisdictional inequity. 3) Viewed from economic development, China is at the initial stage of industrialization. It has a formidable task in readjusting its economic structure. The conflict between agriculture and industry, between rural and urban development, and the conflicts resulting from the scarcity of per capita resources, the arduous task of providing employment, the shortage of funds, and the needs of economic development are going to be protracted conflicts. On the one hand, the central government must use economic levers to regulate and control the market as a way to make structural adjustments. More important, it must be in direct control of some resources in order to carry out its industrial policies. This makes it necessary to ignore the administrative divisions and redistribute the productive forces according to economic regions. On the other hand, we must also mobilize the local governments' enthusiasm. The latter must share the employment and economic development responsibilities, especially rural and urban development responsibilities. These make it impossible to simply get rid of the old mode of economic management by administrative divisions. They pose a real problem in efforts to balance the relationship between strengthening the central government's macro control and mobilizing the local governments' enthusiasm.

Subjectively, we have made some mistakes in readjusting the central and local governments' jurisdictional relationship in the last 10 years. Specifically: 1) In terms of theory, our understanding of the relationship between central and local authority has not been scientific enough, and our understanding of the complicated nature of centralization versus decentralization of power

is inadequate. As a result, our reform policies and measures lack a solid, scientific theoretical basis. We have failed to analyze scientifically or categorize the substance of the Chinese Government's authority and have failed to clarify the role of local governments, especially that of the provincial and municipal governments, in managing the state's economic and social affairs as well as the accompanying responsibilities and authority. As a result, we have created a sense of arbitrariness in the decentralization process. Under these conditions, we have gone ahead to implement such reform measures as local financial and foreign trade contracting and the enterprise contract system, and they have created serious conflicts in theory and in practice and have produced a disequilibrium where the partial interests of the localities outweigh the interests of the state as a whole. 2) During the decentralization process, the central government has failed to make unified plans and arrangement. There is no cooperation among the different departments; instead they impede one another, invade one another's jurisdiction, and directly undermine the central government's authority. 3) Power is delegated to and retrieved from the localities arbitrarily without benefit of a legal system. 4) The central government has been slack in its administrative supervision of the local governments' exercise of their official functions and powers.

Principle and Thoughts on the Separation of Central and Local Governmental Authority

A. Basic principles in separating central and local governmental authority:

As demanded by the development of the planned commodity economy and in consideration of China's current unitary system, the separation of central and local governmental authority should comply with the following six basic principles: 1) the principle of further perfecting the state structure of a unitary system as stipulated in the Constitution; 2) the principle of mobilizing and giving full play to the local governments' enthusiasm while guaranteeing the uniformity of the state's policies and orders and the central government's macro regulation and control capabilities; 3) the principle of safeguarding the authoritativeness of the state's economic and social development plans and key construction plans, protecting the national unified market, and facilitating the circulation of funds, commodities, science and technology, and labor and services; 4) the principle of giving full play to the large and medium-sized cities' role as economic hubs; 5) the principle of basing the separation of authority on the different functions of governments at all levels; 6) the principle of making the separation of power scientific, standardized, and legal.

Governmental authority consists mainly of the management of the state's security, social, and cultural matters, economic management, and the management of the public-owned properties. Of these, the most important is the delineation of economic management rights.

B. The central government's authority:

1. Authority in state security and social and cultural matters:

The central government's primary responsibilities are to guarantee and safeguard the state's independence and security, safeguard the citizens' basic rights and privileges, and promote the country's overall political, economic, and social harmony and steady development. In these respects, its authority can be separated into the following:

(i) Authority in matters decided and implemented by the central government:

This includes diplomatic matters; national defense and military affairs; national security; territory (territorial airspace and waters); meteorology; earthquakes; spoken and written language; basic scientific research and high-tech research and development; support of the old revolutionary, minority nationalities, border, and poverty-stricken regions and relief for major natural disasters; coordination, organization, arbitration, and resolution of matters involving two or more provinces.

(ii) Authority in matters decided by the central government, which formulates the laws, rules and regulations, and plans that are implemented by the city and county governments:

This includes matters concerning the nationalities, civil administration, population, science (except basic scientific research and high-tech research and development,) education, public health, physical education, public safety, all types of social welfare programs, and environmental protection (resources and funds are to be allocated by the central government).

2. Authority in economic management:

With respect to economic management, the central government is primarily responsible for the development, construction, management, and preservation of national resources and infrastructure. It has the power to stabilize, regulate, and control the economy, as well as management, supervisory, and information management rights in the national unified market and in matters concerning the people's livelihood.

(i) Authority in matters decided and implemented by the central government:

With respect to economic construction, the central government's investments will primarily be in the following: Infrastructure that spans the nation or forms a network, such as the construction, administration, and management of railroads, aviation (not including airports and stations,) highways and arteries, water transportation (not including ports), posts and telecommunications, and power stations; investment in major agricultural (water conservancy), forestry, livestock, fishery projects that span two or more provinces; protection and development of the nation's main forests; exploitation and

preservation of staple minerals, resources (including coal and other resources) and gold; development and protection of oceans and shores (including allocation of funds and resources, and none of the above is managed according to existing administrative divisions).

They also include the management and allocation of funds and resources which are budgeted and which pertain to the nation's industrial policy and the distribution of productive forces. In the future, the development of basic industries, including the mechanical and electrical, light and textile, chemical, metallurgical, and nonferrous metal industries and the processing industry should be the responsibility of enterprises, enterprise groups, and investment companies at home and abroad, and they should manage those industries according to the state's laws or rules and regulations. Governments at all levels must not make investments in them.

With respect to macroeconomic management, the central government sets the national economic development strategy and plan, sets up the central financial and taxation systems, formulates the central bank's fiscal and monetary policies, and runs the state's specialized banks, securities exchange, foreign exchange, customs, and other foreign economic and foreign trade (excluding management rights) matters (the central bank and customs are not managed according to administrative divisions).

It is in charge of the state's reserve of goods and materials, regulates income distribution among different regions (and develops the poverty-stricken regions), and deals with major disasters and incidents.

It is responsible for managing the unified market and economic administrative affairs; including pharmaceutical policy, inspection, monopoly, tourist administration, technological supervision, census, auditing, and supervision (of these, pharmaceutical policy and inspection, monopoly, and technological supervision are not managed according to administrative divisions).

Local governments at all levels have no right to handle or interfere in the above matters which are not managed according to administrative divisions.

(ii) Authority in matters implemented by the provincial, city, and county governments after laws have been formulated by the National People's Congress and policies and rules and regulations have been set by the central government:

They include financial policies; resource protection; development plans for cities with an urban, nonagricultural population of more than one million; commercial banking and credit plans; industrial policies; income redistribution policy; workers wages and social protection; industrial and commercial policies; land management.

3. Property management authority:

In keeping with its responsibilities and the characteristics of state properties, the central government's property management authority can be separated into the following:

(i) Assets in which the central government has both ownership rights and management rights:

The central government has ownership rights in the assets of enterprises under the ownership by the whole people system in which the state has invested, which span regions, which are natural monopolies, and which benefit the whole country. It also has management rights in those assets, which include banks and nonbank financial institutions set up by the state; national railroads and highways and arteries; the postal system; the power supply network; state-invested mines, chemical industry, energy, and other mainstay production units, and even those yet-to-be-established local enterprises, civilian enterprises, and central-local joint ventures that are monopolistic in nature—even though the right to the income generated by their assets should go to the investors based on the shares of investment, the management rights in the assets should remain in the hands of the central government.

(ii) Public-owned assets in which the central government has ownership rights but which are managed locally:

The central government has ownership rights in public-owned assets which are regional monopolies. Local public-owned asset management departments exercise management rights in those assets on behalf of the central government. The provincial governments have management rights in people-owned assets which are regional monopolies and which cross city or county lines; for example, intraprovincial highways, water transportation systems, and province-run trust and investment companies.

(iii) Assets which the central government has some ownership and management rights in based on the share of its investment:

Ownership and management rights in people-owned assets which are competitive in nature, whether they are central- or local-level assets, should be apportioned based on the share of investment. However, asset management rights, whether the central or local governments', should be limited to the right to receive income from those assets, the right to transfer, the right to receive income, and the right to supervise the managers of those assets. The right to make decisions on expanded reproduction and reinvestment of income generated by those assets should be shared by all investing parties. Specific asset management rights and production management rights should be delegated to the mass organizations and legal entities.

Upon reassessing the value of the assets, equity share rights in competitive, public-owned assets in which the central government has invested and which are managed by the localities should be divided between the central

and local governments. In assessing the value of the assets, we not only must assess the tangible investments but also such intangibles as management and technologies to make sure that the localities enjoy their fair share of equity rights in enterprise assets in which the central government has invested and which the localities have undertaken to build.

C. The province-level government's authority:

The primary functions of the provincial government are to make sure that the central government's orders are carried out properly within the province; decide periodically on the province's own key economic, scientific and technological, and social matters; promulgate, implement, and supervise policies appropriate for the province; report the policy implementation process and new problems to the central government. It is also responsible for smoothing relations among the cities and counties within the province and initiating public utility works that city and county governments cannot afford.

Specific authority is separated into the following:

1. Authority in national security matters and social and cultural affairs:

(i) Authority in matters in which the provincial government devises specific methods to suit real local conditions and implements according to state laws, rules and regulations, policies, and plans:

These include civic, nationalities, scientific and technological, educational, cultural, public health, physical education, public security, and environment protection matters for which the province has allocated funds and resources; provincial-level cultural groups; provincial-level athletic programs and athlete training; the province's own public safety and harmony; assessment, examination, and approval of the results of scientific research conducted at the provincial level, but not in cities with province-level decisionmaking authority; evaluation of the titles of various high- and mid-level professional and technical posts; organization, handling, coordination, and arbitration of matters involving two or more cities or counties.

(ii) Authority in matters implemented by city or county governments based on policies, methods, or regulations formulated by the provincial government:

These include policies and plans concerning civil administration, nationalities, key scientific and technological development, universal education, culture, public health, physical education, and environmental protection.

2. Authority in matters concerning economic management:

(i) The provincial government formulates methods or regulations for and also implements the following:

Provincial public finance and provincial-level taxation.

Investment in and management of infrastructures that span two or more cities or counties, such as power, highway, railway, water transportation (excluding ports), water conservancy projects, and agricultural, forestry, livestock, and fishery projects.

Development of poverty-stricken areas within the province.

Census, auditing, control, and other supervisory and information management tasks ordered by the central government.

Pricing—management of the prices of agricultural capital goods and aid-agriculture products and balancing the pricing policies of different districts within the province.

Industry and commerce—supervising the province's market activities, curbing improper competition, combating the cities' or counties' regional protectionist policies within the province, and settling economic disputes that involve two or more cities or counties.

Foreign economic relations and trade—management of the province's (excluding cities with province-level decisionmaking authority) own foreign economic and trade administration as charged or empowered by the state.

(ii) Authority in matters for which the province sets the policy, formulates the method, drafts the regulations, and turns over to the city and county governments for implementation:

These include the provincial economic development plan, provincial economic development policy, provincial industrial program and industrial management policy (referring only to major industries such as industry, commerce, communications, and construction and not minor lines of businesses). Currently, provinces also have management rights in city and county tourist administrative matters, but this does not apply to cities with province-level decisionmaking authority or provincial capital cities.

They also include provincial land management methods (land management quota and examination and approval rights of cities with province-level decisionmaking authority are stipulated separately by the central government), and all other matters requested or ordered by the central government.

3. Property management authority:

i) People-owned assets in which the central government has ownership rights and which the localities manage on the state's behalf.

ii) Assets in which the provincial government has ownership and management rights based on its share of investment.

D. Solving the macro regulation and control problem is the key to separating central and local authority.

An age-old question pertaining to the relationship between the central and local governments is how to implement macro regulation and control effectively without dampening local enthusiasm at the same time. To escape the unhealthy cycle where "control means rigidity and decontrol brings chaos," an important basic step is to scientifically separate the central and local governments' authority.

First, in the past, the separation of central and local authority was hampered by three problems: 1) Sometimes power was overly centralized. Power that should have gone to the localities was concentrated in the hands of the central government. Localities lacked the power and initiative to suit measures to local conditions so as to facilitate growth. At the same time, another tendency was for power which should have been concentrated in the hands of the central government to be scattered among too many departments. The central government's power was excessive and tedious, which necessitated many departments to help manage it. Not only were there numerous departments, but each made its own rules and they were constantly fighting among themselves. Macro regulation and control fell apart, and there was little cooperation. 2) Sometimes too much power was handed down to the lower levels. Certain matters that concerned two or more provinces and even matters of national concern were delegated to the localities, grossly weakening the central government's macro regulation and control capabilities. 3) The central and local governments' specialized management departments only looked after units directly under their jurisdictions and ignored industrywide management. The comprehensive departments were bogged down in details. The three major comprehensive macroeconomic decisionmaking departments of planning, finance, and banking would not cooperate with one another. There was little macro regulation and control capability, and the regulation and control system was inadequate.

Second, the key to separating the central and local governments' authority lies in solving the macro regulation and control problems and concentrating on establishing a macro regulation and control system that is scientific and which facilitates the development of the socialist planned commodity economy. The key lies in a smooth, well-coordinated macro regulation and control system which integrates planning, finance, and banking. This is what guarantees the state's proper industrial structure and sustained and steady economic development. If the central government is to have macro regulation and control rights (and the accompanying property management rights), and if local governments are to have the power and the responsibility to implement the central government's macro regulation and control policies, the latter must also have authority to manage local economic, scientific and technological, and social matters. By scientifically separating central and local authority, we can establish an effective scientific macro regulation and control system and in turn create an orderly and vigorous new situation.

Ideas for Separating Central and Local Governmental Authority in the Near-Term

A. Intensify the review and research into the separation of central and local authority.

1. During rectification and improvement and in the early days of the Eighth Five-Year Plan period and in conjunction with the implementation of the various rectification and improvement measures, we should seize the opportunity to readjust and separate central and local authority (referring mainly to the provinces and large cities that have province-level decisionmaking authority; same below). The goal is to set up a tentative framework of jurisdictional relationships which not only gives play to the central government's effective macro regulation and control functions, but also mobilizes the local governments' enthusiasm in developing the economy.

2. The specific approach is as follows: The party Central Committee, the Standing Committee of the National People's Congress, and the State Council should organize the provincial and city research departments and comprehensive economic management departments and charge them to study together this issue which concerns the nation's long-term security and prosperity. We need to sort out the economic management functions and powers delegated by the central government in recent years, and, after analyzing scientifically the different authority elements, we should gradually put the power to use economic levers to effect macro regulation and control back in the hands of the central government and further define the types of authority which should be delegated to the localities. We should reinforce and perfect the effective means to increase the central government's control in the large cities and the handful of key localities. We should also further perfect the system of regional national autonomy and adopt a proper policy and system to promote steady economic and social development in the minority nationalities regions. The separation and readjustment of central and local authority should be accomplished by laws and administrative rules and regulations to avoid arbitrariness.

3. Following the basic principle stated earlier of separating central and local authority, we should sort out all laws, administrative rules and regulations, and provisions drawn up in the last few years which pertain to central and local authority. We should review our experiences and draw lessons from our earlier reform efforts. Thereupon, we should define the types of central authority which should be increased and the types that should be delegated to the localities. Wherever possible, we should affirm that authority by amending old or promulgating new laws and administrative rules and regulations. Obsolete or invalid provisions should be abolished.

B. In conformity with the current central and local jurisdictional relationships, we should concentrate on resolving the following three jurisdictional issues in future rectification and improvement efforts and in the early days of the Eighth Five-Year Plan:

1. With respect to macro regulation and control authority:

First, we must readjust the limits of the central and local governments' power to make planned investments and change the current method of controlling the scope of fixed asset investment. We should change the current control system which parcels out the planned quotas in blocks to the localities into a system which follows the order of industrial development and integrates the financial and taxation policies to control and guide the local governments' investment direction, so as to readjust the industrial structure. The central government should make public the gist of the industrial development situation and key industrial and product scale economy quotas. With respect to industries that the state does not want to further develop, the central government should rescind, unilaterally, the local governments' right to examine and approve fixed asset investments. With respect to industries which the state wants to further develop, such as the energy, transportation, communication, and raw material industries, more power to examine and approve investments should be delegated to the localities, and corresponding adjustments should be made to increase the investment quotas and encourage more investments. The state can lower the interest rate on loans and reduce or exempt their construction tax and investment tax. With regard to the general layout of the investments and the technological and economic needs of large projects, the local governments must obey the central government's orders. With respect to society's overall fixed asset investments, the central government should apply two-way control by setting quotas and issuing industrial project permits, and it should also adopt a regulation method that attaches importance to both interest rates and tax rates.

Second, we must sort out the central and local governments' financial, taxation, and banking management authority. Local governments must not overstep their power or interfere with the central government's tax categories, tax rates, taxes which the central government has the right to collect, as well as the credit policy, credit scale, and interest rates. With respect to public finance, we should strive to integrate financial power and governmental authority, responsibility, and benefit. This is the basis of the separate taxation system. We should conduct intensive study of a way to implement the separate taxation system and strive to set up pilot projects in a handful of provinces and municipalities by 1991. The system can be implemented nationwide after it has been revised and improved through the pilot projects. The tax departments should be headed by the central government vertically from the top down. The scope of fiscal income and expenditure at each level should be clearly defined. We should distinguish, and formulate laws to separate, ordinary fiscal income and expenditure from constructive income and expenditure. With regard to banking, the central bank's function and power to issue currency, set reserve deposit requirements, and adjust interest rates should be strengthened.

The relationship between banking and finance should be smoothed out. With respect to organizational installation and the management system, the central bank should have appropriate personnel and organizations under its administration and jurisdiction to guarantee the central government's authoritativeness and explore ways to set up macro regulation and control organs according to economic regions. For example, we can consider eliminating and merging some central bank branches and subbranches below the province level and not set up branches and subbranches at every level by administrative division in the provinces. The advantages of this approach are: a) It stabilizes the provincial-level regulation and control organs and facilitates the exercise of the central government's regulation and control authority. The duty of the provincial-level regulation and control rights and organs is to relay orders directly to the lower levels and to carry out the intent of the central government's macro regulation and control. This is essential during rectification and improvement, especially in the early days of the Eighth Five-Year Plan period (so far as most provinces are concerned.) Thus, during this period, we only ask that some of the provincial-level regulation and control rights and organs be placed under the central government's direct control and do not seek to make changes in the organs. This will help stabilize the provincial-level organs and will facilitate the central government's macro regulations and control. b) It will help curtail the local governments'—especially those below province level—interference in the central government's effort to readjust the industrial structure, control the rate of economic development, and establish the unified market. We should integrate, sort out, and take back some of the below-province-level local governments' (primarily the county-level governments') power of regulation and control (in banking and taxation, for example) and make some organizational adjustments. Under the system of financial contracting at every level, we can curtail the local governments' interference in the regulation and control levers. c) It will facilitate the steady transition to a modern regulation and control system. Beginning at below the province level, we can explore a new regulation and control system which is not bound by administrative divisions. We can cushion the shock by gathering experience in small scale, and at the same time, because we are moving from the higher level down to the lower level, it will help reduce resistance and increase the chance of success.

2. With respect to economic and administrative supervisory authority:

i) We should emphasize increasing the central government's direct supervision. Of the three—general civil administrative, economic administrative, and personnel administrative supervisions—the central government's economic administrative supervision is the weakest today. In the near term, we must define a system which makes the technological supervision, auditing, census, pharmaceutical policy and inspection, and supervisory

departments directly responsible to the central government and vest in them the power to mete out punishments directly, gradually changing the current dual leadership system.

ii) The central government should supervise local administrative rules and regulations and provisions more closely and improve the system of codifying all rules and regulations to curb the localities' tendency to devise "a countermeasure to the higher authority's every measure" in order to guarantee the uniformity of central policies and orders."

3. With respect to property management rights:

Managing publicly owned assets is one of the main functions of the Chinese Government. Separating the publicly owned enterprises' tax and profit and practicing aftertax contracting are among the basic tasks of the delineation of property rights. In the near term, we can first consider setting up state-owned asset management organs in the provinces and cities with province-level decisionmaking authority to sort out, register, and clarify the assets of enterprises under the respective government's jurisdiction and prepare a balance sheet. They should cooperate with the industrial management departments and gradually pick up responsibility as representatives of the side that hands out enterprise contracts. In particular, while promoting the separation of tax and profit and aftertax contracting in enterprises, they should collect the income generated by the assets as representatives of the owner of state-owned assets. At the same time, they are also responsible for enterprises' aftertax debt payment, technological transformation, and expanded reproduction.

C. The issue of establishing and perfecting a legal system for cities with province-level decisionmaking authority and for the coastal special economic zones [SEZ's]:

1. We should continue to augment and perfect the work of upgrading cities. In view of the confusion about the respective functions and powers of the governments of cities with province-level decisionmaking authority and the provincial and central governments, we must formulate necessary laws or administrative rules and regulations to clarify these cities' legal status, particularly the standards and examination and approval procedure for upgrading cities, clarify the implications and limits of their province-level economic management rights, increase their authority in matters such as urban planning, municipal administration, and limiting the city's sizes, and set up a tentative management system which gives the urban government the right of self-determination in handling the city's own planned development. At the same time, we should also set up a program for handling any conflict between these cities and the provincial and central governments. Such law or administrative rule and regulation should be promulgated by the Standing Committee of the National People's Congress or the State Council, and this task should be put on a standardized, legalized track and treated as a

long-term policy and a means to strengthen the central government's macro regulation and control capabilities.

2. We should clarify the legal status of the SEZ's. After nine years, the SEZ's experiences have proved them to be an important part of China's strategy of opening up. They have assimilated and learned from the advanced management experiences and methods of other countries and have facilitated the absorption of foreign capital and the development of an export-oriented economy. Recently, Comrade Xiaoping reiterated the strategy of "creating several Hong Kongs in the mainland," signaling the beginning of a new phase in China's opening up to the outside world. In order to fulfill this strategic plan, the central government should consciously give play to the SEZ's. Currently, our SEZ policy still lacks stability, and the SEZ systems, including their administrative and economic management systems, still do not meet the needs of their development. Thus, with a proper set of laws, we should smooth out the relationship between the SEZ governments and the higher level governments and clarify the management policy and political framework enjoyed by SEZ governments.

First, we should promulgate a SEZ basic law to define the limits of the central and the provincial governments' management rights in the SEZ's and the unique power of the SEZ governments which differ from other local governments.

Second, we should review the various SEZ's experiences over the past few years and promulgate relevant laws and rules and regulations to institutionalize and legalize the SEZ system. We should sort out the unique policies toward SEZ's and use legal means to protect the jurisdictional relationship between the SEZ and higher-level governments.

Third, to avoid having too many decisionmakers, which would confuse and destabilize SEZ policy, all matters concerning the SEZ's various macroeconomic policies should be coordinated with a specialized department of the State Council before being handed down to the lower level.

D. We need to implement the policy of autonomy for the organs of self-government in the autonomous nationality areas.

The system of regional autonomy of minority nationalities is a part of China's basic system of autonomy and is also a basic policy pertaining to nationalities relations. Its greatest advantage lies in its tight integration of the state's structural pattern of a unitary system with the minority nationality people's right of self-government as masters of their own destiny. At the heart of regional national autonomy is the autonomy of the organs of self-government in the minority nationalities regions. The "Regional National Autonomy Law" ratified in 1980 by the Fifth Plenary Session of the Sixth National People's Congress stipulates this point explicitly. Now the question is how to put the "Regional National Autonomy Law" into effect. We can consider letting the

State Council draft regulations to implement this law. This not only will bring prosperity to the minority nationalities regions but will also bring unity and stability to the country.

E. We should create an organ specializing in handling local matters and design a specific program for resolving central and local conflicts.

After the initial separation of central and local governmental authority, there will be a flood of local issues and incidents, especially incidents of governments at all levels overstepping their authority. To ensure the smooth implementation of the central government's policies and orders and to allow governments at all levels to exercise their legally vested functions and powers, the central government must exercise its power of coordination and supervision. However, among the State Council's administrative organs, none has this kind of authority or is specialized in dealing with such matters. Instead, authority is scattered among many departments and committees. This not only prevents many matters from being resolved in a timely fashion, but also tends to allow things to be resolved by the rule of man. Thus, it is imperative that we install a specialized organ to handle local matters and exercise the power of coordination and supervision centrally. We can set up a local affairs office in the State Council. Its duties will be: First, study new situations and new problems in central and local relations and promulgate relevant policies and formulate programs to deal with the conflicts; second, assist leaders of the State Council in handling local matters; third, supervise the local governments' conduct and keep them from overstepping their authority by codifying all rules and regulations (jointly with the Codification Division of the State Council's Legal System Bureau). The difference between this organ and other State Council supervisory departments lies in its being a comprehensive department: its primary function is to coordinate and overlook the policies, rules and regulations, and provisions promulgated by governments at all levels.

Three Issues That Warrant Further Studies

1. Further develop and perfect China's state structure that consists of a unitary system.

In accordance with its current condition and historic tradition, China has chosen a state structure that consists of a unitary system. Our constitution reaffirms this structure. Thus, our task is not to change this system into a federal system; instead, it is to develop and perfect the system on the precondition that we must continue to uphold it.

China's traditional unitary system coincides with its simple product economy. In the wake of the gradual formation of the socialist planned commodity economy, the unitary system also needs to be further developed. The unitary system based on the product economy is a large unified administrative system where power is highly concentrated. The planned commodity economy, however, requires not only that the central government have concentrated, unified management rights in macro regulation

and control and in the legal system, but that the local governments have greater autonomy in order to serve enterprises with flexibility and in a more responsible way and create a good management and investment environment. This mandates a scientific definition of the principle behind the separation of central and local authority. Looking at the experiences of the development of commodity economies in other countries worldwide, the system of local autonomy has seen important development and has yielded some good experiences. Many countries that have implemented the local autonomy system have sustained political and economic unity and have achieved stable development. Whether China needs and how it can set up this system of local autonomy are questions that deserve further study.

2. Guarantee the stability and solemnity of the division of central and local government authority.

The separation of central and local authority is a kind of separation of administrative power, but the exercise of administrative power is often arbitrary. This means we must have laws to define the scope of central and local authority to make sure that the central government does not interfere with local governmental authority and the local governments do not overstep the limits of their authority.

The various organs of the central government should guide or lead their corresponding local administrative organs by means of law or State Council decree to avoid the overtones of rule of man. Local governments should also govern according to law and exercise local authority by promulgating local rules and regulations and administrative provisions. The central government can rely on the system of codification of local laws and decrees to prevent the localities from abusing their official power. In this way, we can greatly curb the central and local governments' invasion of each other's authority, and we can also guarantee the uniformity of policies and orders throughout the country.

Many of the above problems can be solved only by amending local organizational laws or promulgating new laws. Thus, the study of separation of authority must be linked to the formulation of new laws.

3. The question of who gets the unassigned authority.

The separation of central and local authority is based on the current situation. In the wake of socioeconomic developments, new problems will continue to emerge. Generally, these will be local and regional problems which can evolve into national problems. If the central government alone has the authority to deal with these new problems, it will produce an inflexible system that is unequipped to cope with emergencies. But under the current system, unless stipulated by the central government, localities are without authority to do anything, and, in fact, all remaining, unspecified authority belongs to the central government. Thus, we should devise a proper method to give the local governments the remaining power and at the same time set up a supervisory and an after-the-fact arbitration system to constrain the localities and prevent the abuse of power.

NATIONAL AFFAIRS, POLICY

Planning, Market Integration Viewed

91CE0157A Chongqing GAIGE [REFORM] in Chinese
No 5, 20 Sep 90 pp 8-13

[Article by Liao Jili (1675 1323 4539): "Studying the Combination of the Plan and the Market From Lateral and Vertical Perspectives"]

[Excerpt] [passage omitted] The planned economy and market economy are combined both laterally and vertically. In general terms, various methods of regulation are employed—whatever needs to be regulated by the market is regulated by the market, whatever needs to be regulated by policy is regulated by policy, and whatever needs to be regulated by the plan is regulated by the plan. Let us first examine the lateral aspect. There are ten methods of combination.

1. From the standpoint of the system of ownership, the combination of the plan and the market is a matter of the system of ownership by the whole people co-existing with many other systems of ownership. The economic interests of each system of ownership are regulated, and the rational development of each system of ownership is promoted. We now have the system of ownership by the whole people, collective ownership, private ownership, individual entrepreneurship, public-private joint operations, and Chinese-foreign joint ventures. Not only is it inevitable that the issue of the combination of the plan and the market must exist between the various systems of ownership, but within the system of ownership by the whole people itself there can only be a combination of the plan and the market. The system of ownership by the whole people is the product of socialized, modernized large-scale production. It is an advanced system of ownership, but that does not mean that all of the system of ownership by the whole people is advanced. Currently, some sectors and regions are laboring under the misconception that to defend the system of ownership by the whole people is to defend socialism. They seem to believe that all enterprises must be protected regardless of whether they are advanced or backward. Money losers are given subsidies, concessions are granted in production, supply, and marketing, and the mechanism of market competition is not allowed to play its role. In this manner, advanced enterprises are forced to carry the burden of backward ones.

2. From the standpoint of production, combining the plan and market means to combine a compulsory plan, a guidance plan, and market regulation. This is mainly a matter of acting in accordance with the requirements of the plan and the market to regulate the relative pace of development of production among different sectors, and to coordinate production and demand. The plan is subject to conditions, and it manifests itself in different forms depending on conditions, but in all these forms, the plan is characterized by a few common threads; it is comprehensive, scientific, open, and adaptable. Only a

plan that is based upon various forms of contracts, agreements, protocols, and equal exchange can be effective. The compulsory plan consists of all the various types of contracts between the state and enterprises, including production, marketing, and supply contracts and contract management agreements, all of which are cemented by law and have legal force. The guidance plan is an indirect plan and must employ economic means to have an effect; otherwise it is useless. To implement this kind of plan is to acknowledge the function of supply and demand as well as the function of the law of price. From this it is apparent that the plan is not something that towers above everything else. Our economy is a commodity economy, and the plan, no matter what form it takes, must be combined with the market.

3. From the standpoint of industrial structure, the combination of the plan and the market is mainly a matter of continually readjusting industrial structure on the basis of scientific and technological development, high-tech industry, and expected market demand. Agriculture, township enterprises, light industry, heavy industry, transportation, and air and space aviation must develop in a balanced manner, and they must reach modern levels of development. In particular, township enterprises must develop vigorously in the same way agriculture has, because they are the main source of employment for rural labor. The countryside is also China's biggest market. Industrial products must be oriented even more to the countryside than the cities in their production, supply, and marketing. It is primarily the market which regulates the rural economy. You could say that the success of efforts to combine the plan and the market depend mainly on the countryside. If this problem is handled successfully, regulation in other areas will be easily achieved. Of course, within individual industries there are internal structural problems. The current effort to readjust industrial structure is centered on the goal of strengthening such basic industries and infrastructure as energy, raw and semi-finished materials, transportation, and communications. Previously established industrial enterprises should step up efforts at technological upgrading. Processing industries need to be restructured. We need to switch from an expansion-oriented mentality to a concentration on improving what we have. We need to switch from extensive management to intensive management. This is a big task in the industrial restructuring aspect of our efforts to combine the plan and the market.

4. From the standpoint of investment, combining the plan and the market is a matter of state investment, societal concentration of funds, and individual investments and stock purchases being massed together in order to assure continual expansion of social reproduction. Overall, the state is the main investor, but its investments are small in terms of quantity. Most investments are nonstate investments. Because interests are diversified, investing entities must inevitably be diversified, so it would be impossible to rely completely on the state to implement socialist expanded reproduction, nor

is it necessary. In the future, for some major state construction projects we should (with a few exceptions) permit Chinese enterprises and individuals to invest and buy stock, and we should welcome foreigners to come to China to invest, expand accumulation, and increase production capacity. In the area of expanded reproduction, we must incorporate the market mechanism and become oriented to the domestic and international markets if we are to make up for China's shortage of funds, accelerate the pace of construction in China, and develop China's economic power at a relatively rapid pace. One of the development strategies is that China should use flexibly over a rather long period of time.

5. From the standpoint of circulation, combining the plan and the market is mainly a matter of combining state orders, commodity wholesale operations, and social retail operations in order to stimulate commodity circulation and to coordinate supply and demand. Means of production and articles of daily consumption are all commodities, must all enter the market, and must all be allocated and exchanged subject to the market mechanism. Commercial departments and materials departments may act in different ways within the context of a combination of the plan and the market: 1) They can manage both the channels of circulation as well as prices, as in the case of nonferrous metals and petrochemicals, which are under state monopoly. 2) They can manage circulation channels but leave prices alone, as in the case of wool and other raw and semi-finished materials for which production is highly concentrated but the materials come from highly dispersed sources. 3) They can manage prices but leave circulation channels alone, as in the case of wheat and corn. 4) They can refrain from managing either circulation channels or prices, as with small commodities and nondaily necessities. Even with commodities for which circulation channels and prices are both managed, the law of price must be reflected; prices and marketing methods must be adjusted in a timely manner. Markets are now in the process of continuous development. There are national markets, regional markets, specialized markets, and free markets. There are plan-regulated prices and market-regulated prices. The combination of these two things is a new phenomenon.

6. From the standpoint of prices, combining the plan and the market is a matter of combining state prices, guidance prices, and free prices in order to assure the balance of supply and demand as well as the stability and coordination of prices. In the past there was a misconception that the price mechanism was equivalent to the market mechanism, that markets would form as soon as prices were freed up, and that markets could not form unless prices were reformed. This is not actually true. First, if overall macroeconomic volume is out of balance to start with, freeing up prices will lead inevitably to inflation, an even more irrational price structure, and even more difficulty in bringing about the formation of a price mechanism. Only after total macroeconomic volume has reached equilibrium does the possibility of

freeing up prices exist. However, because commodity structures differ, prices for some daily necessities that are very important to the people's everyday lives cannot be completely freed up. In these cases, state prices must be implemented, and price differentials must be offset through state subsidies. Second, to acknowledge that the question of prices is the core issue of markets does not mean that when the issue of prices is resolved markets will then form. Socialist markets have leadership, organization, and rules. The formation of this type of market requires a process of cultivation. Financial markets and technology markets, for example, cannot be formed by simply freeing up prices; a process of cultivation is required. Keeping in mind the principles of a combined plan and market, we should deal with prices on a case-by-case basis and combine planned prices, guidance prices, and market prices. When these three types of price relationships have been brought into balance, we can then say that the price mechanism has been established, which would facilitate the formation of markets.

7. From the standpoint of fiscal revenues, the plan and the market are being combined in order to ensure a rational distribution and redistribution of interests among the state, collectives, and individuals. After the reforms were implemented we switched from "unified revenues and expenditures" to "responsibility at different levels." This system was implemented during a five-year period and proved beneficial in efforts to tap the enthusiasm of local governments for increasing revenues, cutting expenses, and managing their own fiscal affairs. It facilitated efforts by the various localities to spend funds in a manner consistent with local needs and fiscal capabilities, and it helped these localities to formulate unified medium- and long-term development plans for their local areas, and to spur economic development there. In 1985 we began to switch again to a system of "dividing different kinds of revenues and expenditures among authorities at different levels and giving them responsibility for balancing their own budgets." This fiscal system represented another step toward a scalar fiscal policy based on the tax sharing system. Experimental implementation of this system has indicated that the attempt to implement a system of shared revenues based on different types of taxes has accumulated experience that will enable us to implement a thoroughgoing tax sharing system in the future. At the same time, this system has: preserved the enthusiasm of local governments for finding new revenue sources and limiting expenditures; assured further growth of state fiscal revenues; and weakened the desire of local governments to blindly expand expenditures in order to raise future expenditure base numbers. The main problem now is that the proportion of total fiscal revenues throughout the nation that go to the central government has declined precipitously, and we must readjust ratio once more. This readjustment will be carried out based on the principles of the tax sharing system: one category of taxes, such as customs receipts, goes to the central government; another category of taxes, such as product taxes and income taxes, are to be shared by the central

and local governments; and the third category of taxes goes to local governments. To stabilize central and local government revenues in this manner is a demonstration of the combination of the plan and the market in the area of fiscal revenues.

8. From the standpoint of banking, combining the plan and the market represents an effort to control inflation and make flexible and effective use of social funds in order to raise economic benefits from funds. The most important task of the central bank is to stabilize banking and prices. As long as prices are unstable, it is impossible to assure production, marketing, commercial activities, or normal daily living. The main task of the specialized banks is to act in accordance with state banking policies to carry out flexible operations. They should focus primarily on economic benefits as they optimize loans, reward advanced enterprises, and spur backward enterprises to improve. At the same time, we must establish a primary funds market, promote lateral circulation of funds, use various credit instruments, improve methods for settling accounts, and accelerate the circulation of funds. We must also establish an insurance industry, develop foreign banking activities, and turn banking into a modern method of regulation and control. This is very different from the old planned economy. The fact that we have obtained such quick results during the past two years of readjustment is inextricably linked to our use of the banking system.

9. From the perspective of the distribution of personal income, the combination of the plan and the market is an effort to combine the principle of "to each according to his labor" with various other forms of distribution in order to assure that individuals will have reasonable incomes which will increase steadily. The principle of "to each according to his labor" is an essential characteristic of socialism. Because socialism is based primarily on the system of public ownership, exploiting classes and a system of exploitation do not exist, so it is wrong to think that there will be exploiting classes just because forms of distribution other than that based on the principle of "to each according to his labor" exist. However, it cannot be denied that in socialist countries there are small numbers of exploiters and that some exploitative behavior does exist. This must be acknowledged. However, because we also intend to develop the commodity economy, commodities and currency still play an important role, and some exploiters and exploitative behavior can be regulated in a rational manner through administrative and economic means. In reality, in the past when "everybody ate from the same big pot" and distribution was based on the principle of equalitarianism, disguised exploitation of one party by another still existed. For example, those who did no work received the same wages as those who worked and those who worked relatively little received no less than those who worked a lot. Comparing those irrational phenomena with the problems that surfaced after the reforms, it is hard to say which situation was worse.

10. From the perspective of enterprise management, the combination of the plan and the market is an effort to establish competition and the survival of the fittest in a manner consistent with the state plan and upon the basis of fair competition and equal exchange. 1) State-owned enterprises must adopt various forms of the contract responsibility system. The contract is entered into by the entire body of workers and staff, not just by an individual or a management organization. 2) The base numbers in contracts must truly be fixed. We must assure that enterprises hand over their tax quotas to the government, that they are allowed to keep all profits in excess of the base number, and that they make up for arrears. 3) We must correctly handle interest relationships between the state, enterprises, and workers and staff, and we must link worker and staff incomes to total enterprise profits. 4) We must ensure that profits retained by enterprises are used to upgrade production technology, and that production development funds exceed those for social services and bonuses. 5) Enterprises must have clear internal systems for the sharing of responsibility, authority, and profits. The system of ownership by the whole people is a fundamental characteristic of the socialist system, but this does not mean that every single state-owned enterprise whose activities do not impinge upon vital national interests is an indispensable part of a socialist nation's system of ownership. Thus, except for a small number of major enterprises whose activities do indeed impinge upon vital national interests and must therefore be directly managed by the state, the great majority of all enterprises are transferable and can be run by another nation, can be jointly run in concert with a collective, or they can be run by an individual. Some money-losing enterprises could be rented, leased, or auctioned off so as to enable enterprises under the ownership of the whole people to truly bring into play the superiority of the socialist system.

III. Vertical Combination

Let us now view the issue from the perspective of vertical links as we study the question of exactly how we should combine the plan and the market. In general terms, this is a matter of combining a unified state plan with autonomous and independent operations in different sectors, regions, and enterprises. I will describe here the issue on four main levels.

1. At the macroeconomic level, this is a matter of economic management by the central government. The central government makes macroeconomic policy on the basis of market conditions. Its main function is to consider, study, and formulate medium- and long-range development plans from the perspective of national economic development strategy. We must change the old method of managing the national economy as if it were a factory. At this point no decision has been made about how to further reform the planned management system. My opinion is that management at the macroeconomic level must be strengthened so that a situation in which "the top is unified and lower levels are vigorous" will truly come about. The central government can only

manage big things, not small ones, and it must set up the most comprehensive and authoritative organ of economic management whose task would mainly be to formulate economic development targets, determine the desired economic structure and the proper balance between various parts of the economy, and maintain equilibrium between overall supply and demand. The plan, fiscal policy, and banks are the main components of the macroeconomy. After the plan has provided development targets for the social economy, it is up to fiscal policy to achieve a balance between revenues and expenditures, and to suggest such changes as the nation's fiscal resources allow or dictate. After that, banks use their funds to achieve overall equilibrium, and they suggest changes. Finally, the highest organ of economic leadership carries out discussions and makes policy decisions in order to determine the final content of the plan. There should be a ten-year plan, a five-year plan, and a one-year plan. After the goals for the ten-year development strategy have been approved by the central government and National People's Congress, the five-year plan should be the principal plan upon which actual economic decisions are based. It should be announced by the State Council in every local government and department, and throughout the entire nation, and everyone must be asked to comply with it. The yearly plan should be changed into a readjustment plan. Large readjustments should be whittled down to small readjustments and then carried out in the annual plan in order to avoid the current vicious cycle of "development—readjustment—more development—more readjustment." After this is accomplished, each year's annual plan can be formulated and carried out by enterprises and grassroots units in accordance with the requirements of the five-year plan as well as their own environment. The compulsory plan can be carried out by means of contracts between the state and enterprises which are based on the principle of equal exchange. Where imbalances occur, the social economy can organize itself to coordinate and resolve the problem. When this fails to clear up the imbalance, the responsible organ in the state government can coordinate and resolve the problem. This is an effective and important method for introducing the market mechanism into the macroeconomy.

2. The second level is the mesoeconomic level, which is to say the market. This is an all-encompassing level. It is both the arena in which commodities are produced and managed, and it is also where the macroeconomy and the microeconomy combine to enable the economy to function. The market function has many facets: 1) One function is to link, exchange, and coordinate; 2) the second is to promote competition and expansion; 3) the third is to regulate, choose, and optimize; 4) the fourth is to evaluate, restrict, and eliminate; 5) and the fifth is to transmit, exchange, and serve as a standard. Socialist markets are organized in many different ways. For example, there are commodity markets, financial markets, labor markets, technology markets, real estate markets, securities and stock markets, and information and consulting markets. The formation of these markets

occurs not in one stage, but in several. The process of cultivating unified socialist markets is also quite complex. Some are small commodity markets within a single region; some, on the basis of economic links, reach beyond provincial and municipal boundaries. This type of market is organized based on varying types and sizes of economies, as with the regional markets in the Yangtze River Delta and the Pearl River Delta.

3. The third level is the microeconomic level, which mainly means enterprises. The lateral links of enterprises have already been discussed. What I intend to discuss here is how enterprises, as a part of the microeconomy, combine the plan and the market. China's enterprises are socialist enterprises, and their interests are, overall, in harmony with those of the state. Their interests are also diversified. In general, enterprises should, within the context of a unified plan, should be commodity producers and managers which enjoy autonomous management and accounting, and take responsibility for their own profits and losses. Currently there is a contract management system, a leased management system, a joint venture system, and a system of joint management between industrial and commercial enterprises, or between industrial and trading enterprises. No matter what the management system, enterprises should have the following rights: 1) Within the limits allowed by policy, they should have the right to autonomous production and management. 2) They should have autonomy over purchasing and marketing. 3) They should have autonomy over internal structure and staffing. 4) They should have autonomy to decide what form of salary to pay workers and staff, and whether to distribute bonuses. 5) They should have autonomy over the allocation of enterprise profits, and over the expansion of reproduction. 6) They should have autonomy over their foreign trading activities and over decisions regarding the import of foreign capital. Upon the basis of mutual benefit, enterprises link up and unite laterally. When enterprises unite, they are not subject to restrictions by responsible departments or local government, and they form every sort of economic entity. With respect to this point, some people have the idea that socialism is the system of public ownership, that all income earned by enterprises belongs to the state, that if enterprises get more income the state necessarily gets less, and that increasing state revenue is the only way to remain faithful to the principles of management by the plan. This is incorrect. From a macroeconomic perspective, the more social wealth increases, the better, for it demonstrates the superiority of socialist management and administration. However, from the standpoint of planned management, it would not be appropriate for the state to concentrate too many resources in its own hands. If it were to do this, enterprises would lose their enthusiasm for increasing income, which would limit the growth of social wealth. Fiscal resources in the state's control should be small, and overall social wealth should be great. Total enterprise income should far outstrip total fiscal revenues. Of course, there should be certain limits. Fiscal revenues should not account for more than

one-third of total national income. This is one way in which the combination of the plan and the market manifests itself in both macroeconomic and microeconomic aspects.

4. Finally, there is a level that includes the central government and local governments. This should be considered a mesoeconomic level, but it has unique characteristics. The relationship between the central and local governments is both administrative and economic. Because government and enterprise are not separated, nor are politics and economics, conflicts frequently arise in the relationship between administration and economics, which is very inconducive to the formation of a national, unified market. As the central and local governments divide responsibilities, the next stage of reform should identify the limits to be placed on the authority of the central and local governments in the area of economic management. Administrative intervention in economic activities should be decreased. Economic activities throughout the nation should be unified and introduced into the market, where they would be regulated in a planned manner. Weakening administrative management does not mean we do not intend to exercise management. Actually, we should strengthen management; it is just that the nature of this management would be different. In order to resolve this problem, in any place where there are markets, enterprises must take the initiative to organize themselves according to economic interests into such things as trade councils, industry associations, industry and trade combines, and chambers of commerce. All these are organizations in which enterprises oversee themselves. Because they understand the difficulties and requirements of enterprises and know how to deal with them, it is these organizations that should take over the economic management tasks which formerly fell to administrative organs, so that administrative organs can perform the work that rightfully belongs to them. We need to implement a system in which the government does its own work, the economy takes care of itself, enterprises oversee themselves, and all three are well coordinated among each other. This scientific method of management is suited to the development needs of the commodity economy. This is a good way for the plan and the market to combine in the area of economic management.

Analysis of Prices for First Half of 1990

91CE0119A Beijing *JIAGE LILUN YU SHIJIAN*
[PRICE: THEORY AND PRACTICE] in Chinese
No 9, 20 Sep 90 pp 16-19

[Article by Chen Jun (7315 1498) Zhang Yaohai (1728 5069 3189): "Analysis of Prices for First Half of 1990"]

[Text] The various measures of economic readjustment and control adopted by the State Council since the beginning of this year have begun to yield results. The summer yielded a bumper grain harvest and the early rice crop is expected to be good. Industrial production is developing well. Domestic commodity sales have been

on the rebound month after month, and China has maintained a steady surplus in foreign trade. The overall level of retail prices has been rising at a slower rate; markets are stable, and people are calm. However, underlying problems in the national economy still need to be resolved. As we continue controlling overall volume, we must also carry out structural economic readjustment to an appropriate degree. In our price work, the tasks of readjustment and control are still quite demanding.

I. Overall Price Level

According to information from the State Statistics Bureau, in comparison with the first half of last year, the overall price level for the entire country rose in the first half of this year by three percent, with monthly figures from January through June as follows: 4.1 percent, 4.1 percent, 3.3 percent, 3.1 percent, 2.6 percent, and 0.8 percent.

Price changes in the last half year have exhibited the following characteristics:

1. Food prices have risen little, while prices for industrial products have risen a lot. In comparison with the same period last year, food prices have only risen one percent. Grain prices have fallen 2.5 percent, fresh vegetables have fallen 2.3 percent, meat, poultry, and eggs have fallen 0.3 percent, and aquatic products have fallen 1.3 percent. Among industrial products, prices for books and magazines have risen 11 percent, clothes have risen 8.2 percent, fuels have risen 8.7 percent, and articles of daily necessity have risen 2.1 percent.

2. Prices for consumer items have risen little, while prices for agricultural means of production have risen a lot. In comparison with the same period last year, retail prices for consumer goods have risen 2.4 percent, while prices for agricultural means of production have risen by 7.6 percent. Comparing May of this year with December of last year, prices for agricultural chemicals had risen by 8.2 percent, and prices for seed and various petroleum products for agricultural machinery had risen by 10 percent.

3. In the first half of this year, prices rose for a wide variety of products, but they did not rise a lot. A study of prices for 357 different market retail commodity prices has indicated that as of May of this year, 268 (or 75 percent) of the prices had risen (generally between two and seven percent) in comparison with December of last year. Another 71 (or 20 percent) of these prices had fallen, and five percent of the prices remained unchanged. The absolute price level of the majority of the commodities rose in a steady manner.

4. Free commodity prices have risen little, while commodity prices under state management have risen a lot. According to preliminary statistics, in comparison with the same period last year, among retail prices for consumer goods, state-set commodity prices have risen eight percent, state-guided commodity prices have fallen 0.4

percent, and commodity prices subject to market regulation have fallen 5.3 percent. State-set prices have risen a lot in the first half of this year because of the implementation of structural price readjustments.

5. Commodity prices have risen little, while service fees have risen a lot. In the first half of this year, the overall price level for service fees has risen 12.5 percent, which is over five times the percentage of commodity price increases.

6. Price gaps between the city and the country side, and between different regions, are narrowing. Where prices rose sharply in the past, the rate of price rises fell back this year. In the first half of this year, the overall level of rural retail prices has risen 4.6 percent, while it has risen 0.2 percent in urban areas. The overall level of retail prices in Guangdong province has fallen 3.9 percent in comparison with the same period last year, and has risen by 0.1 percent in Fujian province, while prices have risen this year relatively sharply in regions where they formerly had risen little. They have risen 5.9 percent in Qinghai province, five percent in Ningxia, 4.8 percent in Inner Mongolia, and 5.2 percent in Hubei.

7. Prices paid by enterprises that produce capital goods have been basically stable. The prices of some import commodities have risen while others have dropped. Procurement prices for most export commodities have risen.

Retail prices have risen relatively little this year, primarily for the following reasons:

1) Improvement and rectification of the national economy, and deepening of the reforms have yielded clear success, the imbalance between overall social supply and demand has been somewhat alleviated, savings have increased, sales of market commodities have declined, spontaneous rises by free prices have met with restraints, prices for some consumer durables have fallen back to former levels, and the effect of planned readjustment by the state of exchange rates, salt prices, cloth prices, and transportation have not yet been reflected on the market. Preliminary calculations indicate that since the end of last year, the total monetary effect of price readjustment by the state has run to tens of billions of yuan, but only about one-third of this effect has been reflected on the market.

2) The situation in agriculture is relatively good. Market prices for grains and aquatic products are lower than the same period of last year, and the overall price level of market commodities has dropped five percent from the same period of last year, which has not happened in many years. When agriculture is good, markets are good. The fundamental role of agriculture has been demonstrated.

3) All levels of the government have resolutely implemented a responsibility system for price control targets, and a preliminary set of control methods has been

formed. The government has used economic, administrative, and legal means to manage the production, circulation, marketing, taxes, and profits of the major commodities. For example, Heilongjiang province has continued to perfect its 383 Project. Fujian and Guangxi have carried out comprehensive readjustment and control for the main articles of daily necessity. Such actions have played a relatively positive role in controlling the overall price level.

4) Oversight and monitoring of prices has been strengthened. In particular, penalties for administrative violations of price laws and regulations have been made more severe, and the number of instances in which government organs break the law has been reduced. From January through June of this year, a total of 506,000 cases have been investigated, and economic sanction totalling 430 million yuan have been meted out (0.7 percent lower than the same period of last year). There has been a notable increase in the number of work units which decide to refund money to the wronged party while their cases are being handled. The total amount of these refunds has risen 45 percent in comparison with the same period last year.

5) The delayed effect of price rises that took place the year before last only played a small role. Preliminary calculations indicate that among the price rises that took place in the first half of this year, new price rises accounted for less than 0.5 percentage points and the delayed effect of price rises that took place the year before last accounted for over two percentage points, while the delayed effect accounted for 18.5 percentage points of the price rises which occurred in the same period of last year.

The small increase in the overall level of retail prices is a reflection of improved macroeconomic conditions and the success of combined efforts of the government at every level. Although these efforts have affected the production of some industrial consumer goods, they have played an important role in stabilizing the economy, society, and the political situation.

II. The Macroeconomic Environment and Structural Price Readjustment

The national economy has gradually improved this year, and it had already climbed up out of the trough by June, or was in the process of doing so. The agricultural situation is excellent. Industrial production is on the rebound. Market sales returned closer and closer to normality in the first half of this year. Total sales have risen every month. Sales of edible commodities and daily consumer goods have remained stable. Sales of clothing and knitted textiles have been slow. The market for major household appliances has reached a turning point. Sales have been better in urban areas than in the countryside. Large- and medium-sized stores have enjoyed better sales than regular stores. Retail enterprises have done better than wholesale enterprises. Purchases by social groupings have risen every month. The financial

situation has continued to develop steadily, and money everywhere has begun to flow freely. In the first half of this year, 24.8 billion yuan in currency has been withdrawn from circulation. Bank deposits have increased by 61.25 billion yuan, which is 11.66 billion yuan more than the increase in the same period of last year. Urban and rural savings have increased by 107.13 billion yuan.

The stable development of the national economy has facilitated price reform. With the approval of the State Council, the State Price Bureau took advantage of a recently favorable opportunity to readjust (to a proper degree) irrational prices. The bureau made small readjustments one small step at a time, gradually implementing this year's price readjustment plan.

31 January—The bureau raised procurement prices for sugar. Procurement prices for sugar carried over from the previous season were raised by 15 yuan per ton, an increase of 13 percent.

26 February—The bureau announced a price ceiling for soda ash, caustic soda, and coal sold outside the state plan.

2 March—The bureau raised procurement prices for oils. Prices for six edible vegetable oils were raised by an average of 47 yuan per 50 kilos, an increase of 28 percent. This is the biggest annual price rise for oils since the founding of the republic.

5 March—Prices for state-price crude oil and some refined petroleum products were raised. The price of crude was raised 30 yuan per ton. Prices for some refined petroleum products were raised roughly 10 percent.

15 March—Rail freight prices were raised. The basic rail transportation rate was raised 29 percent, from 2.05 fen per ton-kilometer to 2.65 fen per ton-kilometer. The freight and cartage rate, directly under the jurisdiction of the Ministry of Communications, was raised by 29 percent, from 1.051 fen to 1.353 fen per ton-kilometer.

30 April—The bureau switched to agent-set prices for six commodities—soda ash, caustic soda, aniline, leather, cow and goat butter, and coconut oil—which are imported using the foreign exchange reserves of the central government.

May—The bureau formulated temporary prices for some of the steel from the nine big steel corporations, as well as the steel mills in Shanghai, Tianjin, and Chongqing. The prices rises ranged from 13 to 35 percent.

In addition, prices for coal and fuels used for electricity generation, which are affected more by transport prices, have been raised. Prices for some nonferrous metals and a few other capital goods have also been raised.

The State Council has specially authorized, or delegated power to the State Price Bureau to authorize some price adjustment reports forwarded from the local level. Within legally designated limits, local governments have

also readjusted some commodity prices and service fees which had been especially irrational.

These measures have played a relatively positive role in promoting production, improving supply, improving service, and controlling subsidies.

III. Current Problems and a Forecast of Price Trends in the Last Half of This Year

China already got through its period of economic difficulty in the first half of this year, or is now in the process of doing so. In the last half of this year, the fruits of improvement and rectification will continue to be consolidated and developed. A series of policies and measures adopted by the State Council at the beginning of this year—continued control of total volume, and timely regulation of the degree of control—will yield further results. The agricultural situation looks promising. Industrial production will continue to rebound. Market sales will continue to improve. This will facilitate efforts in the last half of this year to stabilize prices and readjust price structure to an appropriate degree.

However, it must also be realized that some underlying problems in China's economic life which have been building up for years remain unsolved. There are still many difficulties in the national economy, and it will take a while for the entire economy to improve. China is a large socialist country. We can neither lower the people's standard of living nor hope for large infusions of foreign aid in order to alleviate our economic problems. We must rely on all the people to carry out a long, bitter struggle. Currently, structural readjustment of the national economy is proceeding slowly. Loans are increasing relatively rapidly, inventories of industrial finished products are going unsold, economic benefits enjoyed by enterprises are declining, the state has a serious problem with fiscal policy, market commodity sales are in a structural slump, and price stability rests on a fragile foundation. These problems cannot possibly be resolved in a short time.

In our price work, service fees are not being strictly monitored, price rises are relatively steep, agricultural procurement prices are fluctuating too widely, our capacity for monitoring rural prices is too weak, and the problem of illegal price hikes in some localities is quite serious. It will also be difficult to solve these problems any time soon.

In the coming months, the number of factors spurring price rises will increase noticeably:

- 1) A series of chain reactions set off by the price hikes of last winter and spring will increasingly be reflected on the market. The effects of increased transportation prices, exchange rates, and steel prices, as well as the effects of measures aimed at expanding the scope of foreign-trade agent prices, will gradually impinge upon the market as sales increase in the last half of this year.

2) The "Method for Approving Price Hikes in 1990" has been approved by the State Council. Local power to regulate commodity prices has been increased. The prices of some capital goods and articles of daily necessity within the state plan may rise quite a bit.

3) In the last half of this year, the State Council will strengthen the degree of price adjustments to an appropriate degree. The prices of some capital goods may increase.

4) Bank funds have been flowing relatively freely. The amount of credit in the first half of this year was the highest in history for that part of the year. Interest rates have plummeted. These may become important factors that spur price hikes.

These things will cause price hikes to grow larger as the last half of this year progresses, and most of these hikes will be due to new inflationary factors. The actual impact of these price hikes upon the masses, and their psychological preparation for further price rises will gradually grow.

In view of the aforementioned facts, in our price work during the last half of this year we must continue to stick to the philosophy of "stabilizing prices at the same time as we revitalize the economy." We must also continue to carry out the work program which calls for "strict control of prices, appropriate readjustment of price structure, vigorous rectification of price order, strengthening of price management and monitoring, and continued deepening of price reforms." We must correctly handle the relationships between stabilization and development, and between control and stimulation.

In view of the favorable and unfavorable circumstances facing price work at the last half of this year, along with consideration of price trends, we can expect the overall price level to rise by less than 10 percent in the last half of this year.

Perfecting Contract Management System

91CE0065A Hong Kong LIAOWANG OVERSEAS
EDITION in Chinese No 39, 24 Sep 90 pp 14-15

[Article by Yu Chi (0060 0679): "Adhering to and Perfecting the Enterprise Contract System"]

[Text] The contract system for enterprises has been in widespread use for more than three years; by the end of this year, more than 90 percent of these contracts will have expired. How to appraise the first round of contracts, how to cope with the problems that enterprises have encountered, how to perfect and develop the second round of contracts—these are questions which demand attention.

Overall Appraisal of the First Round of Contracts

Since the initial implementation of the first round of contracts in 1987, there have been two years of an overheated economy, and more than one year of an

adjustment situation. In 1987 and 1988, more than 90 percent of the enterprises concluded contracts. In 1989, great changes took place in the enterprises' external environment, and yet more than 80 percent of the enterprises surpassed their contractual goals. Among the provinces and municipalities where the contract system did well were Peiching, Shanghai, Tienchien, Heilungchiang, Chiangsu and Shandung, where more than 90 percent of the enterprises had concluded contracts. Looking back at these three years, we see that the enterprise contract system aroused the enthusiasms of great numbers of managers and workers, improved the mechanisms of enterprise management, furthered the development of production, guaranteed the nation's fiscal income, strengthened the staying power of enterprise development, and raised the workers' standard of living, thus making maximum use of the system's positive features.

The contractual system stabilized the economy, and it stabilized enterprises. While the economy was overheating, the system guaranteed financial income, and when troubles appeared, it deterred a financial landslide. In 1979 to 1986, the seven years prior to widespread implementation of the contract system, the tax rate budgeted for industrial enterprises in the system of ownership by the whole people was 0.13 percent. In 1987 and 1988, after implementation of enterprise contracts, and just in the midst of a period of economic overheating, the annual rate of taxation handed up to the state by enterprises was 11.03 percent. At the beginning of 1989, enterprises began being confronted with the "five shortages," that is, funds, energy, raw materials, transport and foreign exchange were all in short supply, which had a massive effect on normal production. Under these circumstances, due to the functioning of the profit mechanisms and restraining inherent in the contract system, including the enthusiastic efforts of a wide range of managers and workers, although the enterprises actual taxes that year rose by only 0.2 percent, still the amount of taxes handed up increased by 6.6 percent. In the first half of this year, in a situation of continuing shortages, many enterprises operated under capacity, with a resultant drop in economic benefits. The actual taxes of budgeted industrial enterprises dropped 18.6 percent, but the amount of taxes handed up dropped by only 4.4 percent, the decline in taxes handed up being lower than the decline in actual taxes. In each of these three years, the respective increases in revenue were over 10 billion yuan, over 25 billion yuan and nearly 30 billion yuan. For the period January through July of this year, revenue increased 11.6 percent. More than 90 percent of the monetary income was in the ownership by all the people economy and the collective ownership economy. The majority of public ownership enterprises had implemented contracts. Obviously, the contract system assured a continued increase in revenues.

The yearly increases in profits retained by enterprises, with the main part of the capital starting to be transferred to the enterprises, has given impetus to the

enterprises' technological transformation, and added to their reserve strength. Budgeted industrial enterprises on the system of ownership by all the people saw their fixed capital increase in 1989 to about 200 billion yuan more than what it had been before the contract system. Statistics indicate that of the funds for basic establishment of state-owned industrial enterprises, more than 20 percent were raised by the enterprises themselves, as was more than one-third of the even newer investment for their transformation. That is to say, of the funding sources for enterprises' fixed incremental capital, a considerable portion came from the enterprises' investing their own increased reserves. In Peiching, 430 households which were carrying out the "two guarantees, one register" type of enterprise, attained 2.5 billion yuan in investments, 26.7 percent more than the total investment for the entire period of the Sixth Five-Year Plan; of this investment, 660 million yuan consisted of the enterprises investing their own funds, while during the entire Sixth Five-Year Plan such investment amounted to only 350 million. Budgeted industrial enterprises in Chilin used 60 percent of their retained profits to develop production as well as reserve funds. In the enterprises' expansion projects, approximately 80 percent was self-supplied funding, with a large group of the enterprises getting the impetus from technological transformation. Due to increased retained profits in the metals industry, one of the earliest in China to implement the contract system, the industry had capabilities of increased technology and newer equipment. Therefore, they accelerated the pace of the steel industry, and achieved five continuous years of steady development, with an increased output of 30 billion tons of steel annually. As the enterprises' reserved profits grew, the enterprises gradually became principal investors, the benefits derived from investment increased greatly. Because enterprises used funds they themselves amassed, it was like cutting one's own flesh, well aware that it would hurt, but the funds invested were to guarantee a gradual increase in benefits for several years to come. Therefore, the enterprises gave special attention to proof of the technology and economics of the projects they invested in, cutting down as much as possible on the investment cycle.

Since we have had enterprise contracts, economic benefits have become intertwined with workers' incomes, giving great impetus to workers' enthusiasm for production and increasing national revenues. At the same time that enterprises' actual strength has grown, there have been obvious improvements in workers' lives. The average pay of an industrial enterprise worker in 1986, pre-contract, was 1,388 yuan; by 1989 it had grown to 2,177 yuan, a net increase of 789 yuan, or 56 percent. The collective material benefits funds in the enterprises' retained profits were mainly put to use in improving workers' housing, and in expanded construction of day-care centers, workers' recreation halls, baths, clubs and libraries; still others are building gymnasia. Enterprises which had the contract system earlier on, and which are relatively better-off, such as First Steel, P'an Steel, the

Han-tan Iron and Steel Plant, the No 2 Automobile Plant, the Chia-mu-szu Paper Plant, the Shih-hua Corporation, etc., have built many workers' residences in the past few years, relieving the contradictory housing shortage, so that more and more workers may live and work in peace and contentment, and the enterprise power they embody will move forward.

Problems Encountered in the Second Contract Round

When one starts to compare the second contract round with the first, many new conditions begin to emerge.

When the market slumps, money gets tight. In the first half of this year, because market requirements were basically unresolved, this led to a more than 10 percent drop nationally in the volume of sales for means of production, which had a massive effect on large- and medium-sized enterprises. The majority of these enterprises did not fulfill their production assignments, orders contracted for were not met, an increasing quantity of goods were overstocked and there was a decrease in profits. At the same time, enterprises' funding difficulties remained unresolved. This was due to large enterprises contracting to assume responsibility for many key national projects in which the plans were of a mandatory nature. Another aspect of this is that although the state gave priority support to large enterprises in extending credit, there still were serious instances of local medium and small enterprises grabbing the lion's share. The large enterprises were then not only unable to cut down on their debts, but instead assumed a greater burden due to increased interest rates.

As an enterprise's burden grows heavier, it faces attack on all sides. One reason for this is that the various distribution taxes increase, and the tax rates increase, causing a decrease in the profits realized by the enterprise. The proportion of those taxes which industrial enterprises traditionally have paid is now more than 60 percent. The second reason is that there has been a continual increase in that part of the industrial enterprises' reserved profits which is handed over for tax payments and debentures, making the proportion of their pure profits handed up by enterprises now about 85 percent. The third is the rise in prices of raw materials: because of the cost inflation for raw materials, fuel and transportation of commodities in plan, national key steel enterprises overspent on these costs by more than 18 percent. There was the irrational situation of Wuhan Steel, because of the inflated costs of raw materials, finding its deficits growing as did its rate of fulfillment of commodities within plan. The fourth reason is that heavy interest is reflected in some provinces, so that the interest paid out in one year by enterprises is approximately 75 percent of the profits they realize in that year. The fifth reason is that when there are many societal expenses, and an increasing number of personnel retirements, this becomes a burden which many enterprises cannot bear.

Some managers do not have much enthusiasm for renewing contracts. In the past year, there have been

major changes in the external conditions which impact upon enterprise management, with the contracts' rigid base being the most prominent; this has made it difficult to fulfill contractual obligations, which has dampened the enthusiasm of some managers, and made them reluctant to renew their contracts. There are also some managers who are unclear as to the economic circumstances of the second round of contracts; they feel that the contract base will not be calculated as low as that of the first round; therefore, they cannot enter into another contract. In addition, there were strict controls on managers' incomes during the period of control and rectification, and this had a definite affect on all plant directors (managerial) who had middle and high-ranking specialized and technical positions. The income of those without contracts was not bad either, so if the contractors' support for the system is weak, they could very possibly be reluctant to renew.

Some Suggestions for Perfecting the Second Contract Round

The problems currently confronting enterprises will not be dealt with easily in the second round of contracts. The state has already adopted a wide variety of measures intended to aid enterprises in overcoming their difficulties in doing a good job of the first contract round. To perfect the second round, there must be special attention given to several problems.

1. Put more responsibility on the side issuing the contract. In a situation where enterprises are facing the very serious production management problems of a market slump, overstocks and shortages of money, the importance of strengthening the responsibility of the issuing side becomes obvious. The issuing side is usually a department designated by the government as its representative, with participation by several related departments. The various relevant departments, both participating and issuing, should all examine the provisions of the contracts from the standpoint of their own powers and functions, clarify their own responsibilities and obligations, and then make positive contributions to creating the conditions enterprises need to perfect their contractual missions. For those enterprises that assume mandatory planned missions, it is imperative that the relevant departments keep them supplied with the necessary materials, energy, transport capabilities, mediation and distribution channels, if they are to fulfill their assigned production and marketing "guarantees" in the joint contract. The department responsible for an enterprise has the responsibility of insuring the enterprise's legitimate rights and interests, relying on legally exercising their rights and powers, and resisting various kinds of levies.

2. Implement contracts for all personnel. In the first contract round, a suitable number of enterprises implemented contracts for individual managers or leading groups; these conditions were an allowable option in the "contract terms." But because managerial authority was concentrated in the hands of an individual or a few

people, it did not select the weak position of staff directors. When an enterprise surpassed its quota, a manager could participate in allocation of the profits from surpassing the contract, receiving higher income in wages and bonuses than did the workers; but if that manager's policies are at fault, resulting in deficits for the enterprise, the manager is absolved from economic responsibility, creating a conflict of interest with the staff at large and dampening some of their enthusiasm. The second round of contracts should change this way of doing things, and this can only be done by putting into effect a personnel contract which makes plant directors legal representatives, so that managers will seek the opinions of workers' committees in decisionmaking. In this way contract planning will go through discussion by the workers' committees, carrying out internally an economic responsibility system, bringing the rights and responsibilities down to each worker, carrying out risk insurance by jointly assuming managerial risk.

3. Fix the contract base logically. If state, enterprise and worker profits are all taken into account, they embody the demands of national industrial policies, and refer to an equal rate of monetary profits for similar industries within the same area, to set a logical contract base. If in the initial period of contracts, missions are accomplished comparatively well, those enterprises which have the more logical bases should maintain the bases selected, and make appropriate progressive increases in profit rates handed up or in that proportion which is in excess of quota. In the first period, those enterprises whose contract bases tend to be low or which have already derived maximum benefit from technological transformation, should suitably raise their bases or the proportion handed up. Enterprises that need more emphasis on supporting their development, or investment for technological transformation, should receive appropriate consideration when the base is fixed.

4. Do a good job of ideological work among managers. Through the first contract round, the overwhelming majority of enterprise plant directors went through a trial by ordeal. Experience has proven that most of them were equal to the task. Although the production management environment is still somewhat troublesome, and many problems are involved in promoting the new round, the various ways of thinking among the managers are understandable. The enterprises' parent departments and relevant units must do thorough and detailed ideological work among plant directors, conducting a practical and realistic appraisal of their achievements, conscientiously safeguarding their zeal. It is only through the directions we gain from the projects of the first round that we can, through audits, believe firmly that conducting business within the law, with leading groups more unified and supported by the workers, will managers be encouraged to renew their contracts.

Combining Industrial Structure Adjustment With Reform

91CE0155A Chongqing GAIGE [REFORM] in Chinese
No 5 Sep 90 pp 57-63

[Article by Wang Jiye: "Problems in Combining Readjustment of the Industrial Structure With Furthering Reform"]

[Excerpt] [passage omitted] 2. The country's industrial structure has improved markedly as a result of the past 10 years of reform and opening to the outside world, particularly up to 1985. In the proportional relationship between light and heavy industry, the former irrational pattern in which heavy industry grew too fast, and agriculture and light industry developed too slowly has been broken. Both agriculture and light industry are developing fairly rapidly, which plays a positive role in improving market supply and raising the people's standard of living. However, since 1985 a worsening trend has taken place in the industrial structure, both by sector and by region.

In the sectoral structure, the conflicts between agriculture and industry, and between basic industries and processing industries have not only not been solved in the main, but rather have tended to get worse. The conflict between agriculture and industry stems mostly from the overly fast growth of processing industries, which has been brought on, in turn, by an expansion of consumption demand that has exceeded the capacity of agriculture to bear it. This has been markedly manifested in the speed of growth. From 1985 through 1988, the ratio between the growth of agriculture and the growth of industry was 1 to 4.45. This greatly exceeded the 1, 2, or 2.5 speed of growth of the country's agriculture and industry at the present stage, thereby placing an excessive burden on agriculture. A review of the history of the country's economic development shows a lag in the development of agriculture, and the inability of agriculture to withstand the overly fast growth of industry. Not only did this become an important factor limiting development of the national economy, but conflicts mounted to the point where they were bound to force readjustments of the economy. These readjustments always began with a strengthening of agriculture, straightening out the correlation between industry and agriculture being their basic focus of attention. Only by completely making agriculture the foundation of the national economy, genuinely bolstering agriculture, and arranging the scale and speed of development of the entire economy on the basis of the state of development of agriculture and the ability of agriculture to support industry can repeated rounds of development - readjustment - development be averted, and the national economy be placed on a path of consistent, steady, and coordinated development. Since 1984, the country's agriculture, and particularly its grain production, has fluctuated. In 1989, the increase in grain output repeated and exceeded the all-time high of 1984. Nevertheless, it should be clearly realized that this increase in grain

output did not result from an increase in yields. The 242.7 kilogram per mu yield 1989 was only a 0.7 kilogram increase over the 242 kilogram yield of 1984, so there was substantially no rise. The increased grain output stemmed mainly from an increase in the growing area. It was achieved by reducing the area sown to cash crops. This increase in grain output at the expense of a reduction in the area sown to cotton and oil-bearing crops, reducing output of cotton and oil-bearing crops in order to increase output of grain shows there was no increase in the overall production capacity of agriculture. This fluctuation in agriculture has by no means been completely eradicated. Breaking free from the fluctuation in agricultural production, particularly grain production, in a country that has such a large population and relatively scarce resources such as ours can be accomplished only by taking the road of intensive farming, high inputs, and high outputs to increase yields as a means of increasing gross output. Increasing yields requires an increase in inputs of capital, material, and inputs in order to raise overall production capacity. Ever since reform and opening to the outside world, we have enormously increased the price that the state pays for agricultural products. The peasants have made more money, but a substantial portion of the money they have received as a result of price increases has not been invested in agricultural production. Instead, it has been used to improve their standard of living, particularly for the building of houses and for nonagricultural investment. State investment in agriculture as a percentage of total investment has also diminished. For both these reasons, investment in agriculture is insufficient, and agricultural production conditions have not improved markedly. Historical experience shows that future development of agriculture will require giving prominent place to increased investment. Not only will state investment in agriculture have to be increased, but even more importantly, vigorous policies and actions will have to be adopted to guide the peasants toward increasing their own investment in the land. This should be the premise for appropriate readjustments of agricultural product prices, and to encourage the peasants to put more of the gain they obtain from a rise in prices into the development of agriculture, particularly grain production. In summary, vigorous measures are needed to restrain overly rapid growth of consumption demand to enable the growth of agricultural production in order to meet overall needs for improvement of the people's standard of living and development of the economy. At the same time, the scale and speed with which industry is developed has to take into account the ability of agriculture to sustain it, and the necessary means of production for the development of agriculture have to be provided.

Driven by an expansion of demand, including both investment demand and consumption demand, during the past several years, processing industries have developed rapidly, becoming the main factor causing economic overheating. This has also made the conflict between basic industries and processing industries more conspicuous. From 1978 through 1984, processing

industries grew 0.4 percent annually in the industrial structure. The speed of growth ratio between basic industries and processing industries was 1 to 1:32. Even though the supply of certain basic industrial manufactures was not very ample during this period, overall there were no very serious shortages. After 1984, industry again grew at super high speed. The main element in the expansion was processing industries. The ratio between basic industry and processing industry speed of growth expanded to 1 to 1.48. Processing industries grew at an annual 0.8 percent in the entire industrial structure. Within basic industries, during the period 1985 through 1989, the average annual speed of growth for raw and processed materials industries and mining industries was 12.1 and 6.3 percent. During the same period, however, the average annual speed of growth of processing industries was 17.5 percent, showing that processing industries grew most rapidly, followed by raw and processed materials industries, with mining industries growing slowly in an irrational pattern. This stemmed largely from overly fast growth in consumption demand. Consumer goods industries, particularly ordinary processing industries that were leaders in the production of household appliances expanded greatly, thereby leading to an increase in the gap between the supply of basic industry products and processing industry demand. Even though the central government devoted extreme attention to the development of basic industries, repeatedly filling the basic industry gap, enhancing coal, and electric power supply capacity to the point where the output of coal, and the increase in power generation capacity was such as had rarely occurred; nevertheless, the supply capacity of basic industries remained unable to satisfy the overly fast increase in production industry demand, and the gap remained very big. Clearly, the intensification of the conflict between basic industries and processing industries did not stem primarily from the slow development of basic industries, but rather from the overly rapid growth of processing industries, which was more than available energy, raw and processed materials, and transportation could stand. This structural conflict both created an all-around shortage of basic industry supply, and also brought about a rise in prices of agricultural by-products and of raw and processed materials. Therefore, easing of the conflict between basic industries and processing industries requires efforts in three regards, namely restraining consumption demand, controlling processing industries overly rapid growth, and vigorous efforts at the same time to develop and build more basic industries. However, we must clearly realize that the large amounts of capital and the long construction periods required for the building of basic industries, and even more the limitations that a shortage of resources impose means that their overly rapid development to support high economic growth is unrealistic. Of course, we must institute policies tilted toward the development of basic industries, but this tilt must be moderate; otherwise, it will adversely affect the development of labor intensive industries such as light industry, which will be bad for improvement of market supply and for increasing foreign exchange earning exports, as well as

for the accumulation of the funds needed for the building of basic industries. It must also be emphasized that the development of basic industries also requires extremely close attention to improvement of the internal structure, efforts made to improve quality and lower consumption, and to overcome the tendency toward blind pursuit of speed and competition. China produces no small amount of steel, output exceeding 60 million tons per year; nevertheless, variety and quality remain unable to satisfy demands in all regards. Every year it is necessary to import approximately 30 percent of the processed steel consumed in the country. China has built quite a few steel mills, but the supply of ore and iron is seriously inadequate. If we continue to focus on new construction and the expansion of output instead of shifting emphasis toward the improvement of quality, the steel industry will experience ever increasing difficulties. China has rather abundant coal reserves, but their geographical location makes transportation a conspicuous problem. Even were coal output to be increased, the transportation problem would have to be solved. Electric power production in China today is primarily thermal power, so coal production determines the development of electric power production to a considerable degree, and a problem that ensues is serious pollution. Over the long-term, China must develop water power to generate electricity. Usually the investment required to build hydropower is considered too great, so the development of thermal power, which requires less investment, is preferred. Actually, when the mining and transportation of coal are added in, the total investment required to build thermal power plants is by no means small, to say nothing of the cost of cleaning up the pollution caused by the use of coal to generate electricity. A large lump-sum investment is required for hydroelectric power, and during the fairly long construction period there is only input with no output, but no problems exist in transportation pressure and pollution. Therefore, while striving to develop thermal power, China must consider building hydropower. Nuclear power is in its infancy, but it provides a choice whose use may be considered in areas lacking both coal and water power resources. In summary, we must devote major efforts both to the development of energy industries, and we must also consider readjustment of the energy structure properly and by suiting general methods to specific circumstances.

While maintaining steady growth of basic industries, we must control blind and overly fast development of processing industries overall, and apply ourselves to the reorganization and transformation of processing industries to bring about a fairly marked decline in processing industries' energy consumption per unit of product, shortening the supply gap between processing industries and basic industries through conservation. The emphasis in the transformation of processing industries should be on basic mechanization, which has a bearing on overall improvement of the quality of industries. At the present time, heavy processing industries are generally fairly well mechanized, but they lack large complete assemblies and specialized equipment. Thus imports are required,

which increases pressures on foreign exchange balances. Therefore, energetic efforts should be devoted to extending the use of conservation equipment and technologies in order to reduce the importation of technology and accelerate the Chinese manufacture of large complete assemblies for gradual realization of import substitution. We must also develop specialized cooperation and insist on the economies of scale. In addition, the transformation of processing industries must be carried out in conjunction with reorganization. Without reorganization, no serious transformation can be made, and the upgrading of the entire processing industry will be difficult. All out transformation is bound to run up against the shortage of funds, so even if it is possible to go on, it will not change the irrational situation in the internal structure of processing enterprises. However, reorganization of processing enterprises without transformation will not do either. When equipment is at a low level of technology, no saving of energy and of raw and processed materials will be realized. We must premise actions on control of the total, and use reorganization as a basis for organizing enterprise blocs, industry by industry, to carry out a major transformation of processing industries for the purpose of gradually advancing the complete technological transformation of processing industries. This time there should be no more talk of a general technical transformation. Instead, certain products such as color televisions, refrigerators, motor vehicles, cotton textiles, and ethylene should be reorganized and transformed on a trial basis, across-the-board planning used for a genuine solution to the problems of too many sites, too small economies of scale, and not very high product quality so that funds already investment can produce better economic returns.

From the regional standpoint, conflicts in the industrial structure show up mostly in an increasingly serious convergence in the structure of all processing industries in an area. After 40 years of economic construction, very great changes have taken place in the country's regional economic pattern. With development of a commodity economy and a rise in the economic level, a traditional regional division of labor pattern has begun to emerge that is characterized mostly by coastal areas developing processing industries and inland areas providing both energy and raw and processed materials. Quite a few places exploit local resources to develop processing industries. This is an irreversible objective trend. However, it should be realized that some inland areas fail to take account of actual local conditions and possibilities. They become divorced from the existing production structure, and from resources and market conditions, engaging in deep processing that lies beyond their capabilities to perform. Meanwhile some coastal regions having requisite conditions for the development of deep processing and high technology industries have not readjusted their original industrial structure to meet new changes in the situation. Instead of focusing on the development of deep processing and high technology industries, they stick to their original preliminary processing and traditional industries, competing at a low

level of technology with inland areas for raw materials and markets. This results in a convergence of the structure of industries in both inland and coastal areas. This shows up mainly in the following ways: In the specific direction of economic work, each province and area strives for self-sufficiency in manufacturers to form a complete economic system. Some areas that possess advantages for the development of heavy chemical industries prepare for the vigorous development of light and textile industries, while places having traditional advantages for light and textile industries and that have export prospects prepare to develop heavy industries for which there are no mineral resources locally available. The convergence of industrial structure is especially pronounced in processing industries. A rather serious situation exists in which plants located in most provinces and regions all over the country that manufacture household appliances duplicate production and construction. Not only does this waste money and create a shortage of raw and processed materials, but it also renders difficult the balancing of foreign exchange receipts and expenditures. During the present market slump, the conflicts are even more pronounced. One matter requiring particular attention is that the convergence of industrial structure is in process of spreading from processing industries to basic industries. Many places are striving to develop chemical industry raw materials, petroleum processing, steel smelting, and vinyl production without regard for actual local conditions. If this is allowed to go on, it may cause greater losses and waste. The convergence of industrial structures will result in an increasingly sharp conflict between resources producing areas and processing areas in the shipment and receipt of resources. Resources producing areas will use all means to expand the percentage of their own sales, with the result that existing state-planned processing areas will not be able to count on getting the raw materials they need, thereby occasioning a marked decline in returns from the macroeconomic allocation of resources. The conflict between basic industries and processing industries has not been eased as a result of regional arrangements; instead, it has tended to intensify further.

Accompanying the convergence of the regional industrial structure is the gradual emergence of separate regional economies and markets in isolation from each other. This prevents the effective operation of the national economy, and the formation of a unified domestic market. In their efforts to be large and all-inclusive or small but all-inclusive, quite a few areas seek to protect the production and market sale of their own products, and to prevent the entry of goods from elsewhere into local markets. This hurts the formation of a unified market, and obstructs economic and technical cooperation and exchanges among regions. Naturally, geographical conditions, resources, industry, and the technical foundation differ markedly between one region and another, but this is no reason for practicing local autarky and setting up separate markets. Regional autarky and separate markets may bring immediate returns for a region for a short period of time; however, in terms of

overall and long-term economic development, this brings greater damage and difficulties to the region's economic development.

Solution to conflicts between the industrial sector structure and the local structure requires the drawing up of a centralized national economic development strategy and regional development strategies that reflect each region's characteristics, implementing them through correct industrial policies. Industrial policy must tilt toward the industrial sector, and also toward regions. Coastal areas must carry out "gradient" development on the basis of the principle of economic returns, while inland areas possessing advantages in resources require "reverse gradient" development, each having its own rationale. Tilts toward sectors and regions should be considered together as industrial policy requirements warrant, a policy pursued of combining moderate tilt toward the industrial sector with the development of regional cooperation. Economic development in coastal regions open to the outside world should have as its goal the optimization and upgrading of the industrial structure and entry into international markets, the promotion of technical progress, and improving product quality and grade. On the other hand, the building of high energy consumption projects in coastal regions should be restricted. Existing high energy consumption enterprises and products should be gradually moved to places having abundant energy resources when conditions warrant. Inland regions should make the most of their advantages in resources, developing raw and processed materials and preliminary processing. They should also work together with eastern coastal areas in doing deep processing as well as exporting to earn foreign exchange. They should use the supply of raw and processed materials, and capital and technology return channels to advance the cooperative development of a regional economy. State support for key enterprises, trades, and enterprises should be given to places having relatively better conditions for construction, and technological transformation, preferential policies toward industries being linked to preferential policies for regions, practicing neither policies preferential toward industry nor sweepingly practicing policies preferential to region 3.

Readjustment of the industrial structure requires solution to conflicts and difficulties in many regards and at many levels. No matter whether adjusting the structure among industries or within an industry, or adjusting the regional industrial structure, not only must other policy measures be adopted, but the adjustments must be propelled through furthering reform. Given current circumstances and the nature of the industrial structure, the product structure, or mix, is more amenable to adjustment followed by the structure of different trades. Relatively speaking, the time required for these adjustments will be fairly short. More difficult will be readjustment of the industrial structure, which will take a longer time. We should begin with a readjustment of the product mix, linking together the near-term objectives in readjustment of the mix with long-term objectives in optimizing

and upgrading the entire industrial structure. Moreover, attainment of an effective readjustment of the product mix so that it meets changes in the consumption structure requires that full use be made of the role of the two regulatory mechanisms of planning and the market. Use of the plan regulation mechanism, making planned readjustments of duplicatory production and construction, as well as reorganization and transformation, will enable attainment of the economies of scale, and be consistent with ability to provide energy and raw and processed materials. The positive role of the market should promote improvements in quality and grade, and bring about updating to meet the fast changing and varied demands of the market. Readjustment of the structure of individual trades may be done mostly through the formation of entrepreneurial blocs of various kinds, individual enterprises within trades being reorganized and transformed to solve the problems of duplicatory production, redundant construction, and poor benefits of scale. As for readjustment of the entire industrial structure, particularly rationalizing and optimizing the structure of agriculture and industry, and of basic industries and processing industries, this entails a readjustment of asset inventories and increases, and reorganization of key production elements; thus, it has a bearing on complex issues such as readjustment of the pattern of distribution of national income, as well as on the establishment, perfection, and improvement of a new economic operating mechanism.

The correlation between assets on hand and increases in assets may play a substantial role in industries having a low threshold of investment and a short construction cycle. However, the role it can play is usually limited in those basic industries in which the investment threshold is high, the construction cycle long, and product prices conspicuously low. The emphasis in the readjustment of the industrial structure must be on vigorous strengthening of basic industries. Inasmuch as basic industries have relatively weak capacity to accumulate, they must rely on other industries, particularly processing and manufacturing industries, light industries, and agriculture to provide a substantial portion of the money they need to readjust an increase in assets. However, this reliance produces certain conflicts with the distribution and use of newly added national income. The portion used to increase new accumulations means a corresponding decrease in the portion available for new consumption. Consequently, although reliance on a limited amount of newly added national income to readjust the seriously imbalanced industrial structure in an effort to improve the people's standard of living plays a certain role; in the final analysis it is but a drop in the bucket in effecting a fundamental change in or reversing the irrational situation in the industrial structure. Therefore, readjustment of the industrial structure, simultaneous with efforts to readjust increases in assets, must be done through a readjustment of the assets on hand, and readjustment of assets on hand inevitably affects the existing pattern of benefits. In accordance with industrial policy requirements, support must be given to

industries, trades, and enterprises whose development is to be supported, firm support given them in the form of funds, material resources, and technology. Those that should be curtailed must be unwaveringly curtailed. Those that consume large amounts of energy and materials, and that turn out shoddy products for which there is little or no market, must be sternly eliminated. Enterprises that produce shoddy products must be closed down, halted, merged, or re-tooled, the funds thus freed used to build more basic industries. The present offers a fine opportunity for readjusting the industrial structure. For the sake of political and economic stability, more enterprises should be merged or re-tooled, and fewer closed or halted. However, in merging and re-tooling, losing enterprises and enterprises that eat up profits must not be permitted to eat out of a large common pot; otherwise, that would be tantamount to passing on to individual enterprises the conflicts within the industrial structure, continuing to protect backward enterprises in a new form. The greatest obstacle to readjustment of the industrial structure is the limitation of benefits to regions and sectors. Industrial structures that should be readjusted cannot be readjusted, while financial and material resources do not suffice to support those that should be supported. So long as the existing industrial pattern is maintained, there can be no marked improvement in economic returns, and if this continues for an extensive period of time it may create greater difficulties for future readjustments. In long-range terms, while doing a good job of individual trade and industry planning, and while strengthening plan guidance, the market competition mechanism must be brought into the readjustment of the industrial structure to bring the champions to the fore and eliminate the second raters, and to accelerate the building of a new social support system, particularly an insurance system for those awaiting employment. This will help the effective readjustment of the enterprise organizational structure, the individual trade structure, and the entire industrial structure to spur a rise in macroeconomic returns. In terms of the readjustment of the pattern of distribution of national income, funds available for construction are seriously lacking and relatively dispersed, which is extremely unfavorable for the readjustment of the industrial structure. One important prerequisite for readjustment of the industrial structure is a regrouping of the key elements of production. This applies both to a readjustment of existing assets and newly added ones. Reform must be used to bring about a genuine reversal of the irrational situation of a tilt toward individuals in the distribution of income, the tilt toward extrabudgetary funds, the tilt toward local governments, and the tilt toward units other than those under ownership of the whole people of recent years. Funds needed to strengthen weak links in the national economy must be properly amassed.

In terms of the economic operating mechanism, a rational price mechanism plays a very great role in spurring readjustment of the industrial structure. An irrational price system is a reflection of industrial structure imbalance, and it also reacts against the industrial

structure causing further worsening. Certainly, price readjustments cannot substitute for readjustment of the industrial structure, but a rational price system can advance readjustment of the industrial structure. The conflicts and difficulties we are presently facing show up prominently in industries whose development the state must support such as agriculture, and basic industries such as energy, and raw and processed materials industries. These happen to be industries in which prices are too low and irrational. Very clearly, without price reform, the more these industries develop, the more state financial subsidies will increase to become an every increasing burden. Furthermore, government financial difficulties will inevitably mean inability to provide the funds that these industries need for their continued development. This will mean that basic industries will become a bottleneck in economic development for a long time. A completely rational optimized industrial structure will be difficult to realize. It is not hard to see from this that price reform is an important prerequisite for advancing readjustment of the industrial structure. Price reform affects myriad products, but a way can be found. In long-range terms, we must straighten out and establish a series of prices of the following products and labor services: first is a series of prices for agricultural by-products centering around food and cotton; second is a series of prices for the means of production centering around basic raw and processed materials; third, is a series of prices for funds centering around exchange rates; and fourth is a series of prices for services centering around house rents (or house sales prices. In the process of economic development and reform, it is necessary to slowly straighten out the foregoing four price relationships, and to coordinate relations among each of the various series of prices. During the period of improving the economic environment and rectifying the economic order, it is necessary to begin with solving glaringly irrational problems in the first two price systems to make comparative price relationships of important products more rational. In straightening out price relationships for these series of products, a combination of readjustments and removal of price restrictions may be used. For products for which there are to be planned price readjustments, since most are upstream [sic] [0006 3266] products, consideration must be given to the ability of enterprises that produce downstream [sic] [0007 3266] products to withstand price readjustments. While spurring a rise in their economic returns and absorbing some price rise factors, it is necessary to guard against a rise in prices to the same degree as for upstream products that produces a price ratio regression. For products for which a removal of price restrictions is required, the supply and demand situation has to be looked at, and a decision bases on the ability of society to withstand a removal of price limitation, and whether such removal will result in the formation of a rational price mechanism. A removal of price restrictions in a situation in which the gap between supply and demand is great, and the ability of society to bear a removal of price restrictions is weak or nonexistent should be avoided at all costs. The ability of society to bear the removal of

price restrictions includes the burden on the national treasury, the effect on enterprises' profits, and the public's psychology toward and material ability to bear price increases. Otherwise, should prices rise too swiftly, the public will be unable to withstand the rise, and government will be forced to reinstitute price controls. Alternatively a price ratio regression may occur without being able to realize the anticipated goals of price reform and also increasing government subsidies greatly. This is to say that the removal of price restrictions has to be done at the right time and under the right circumstances, plans and policies formulated that are in keeping with actual circumstances and following balanced calculations in order to move price reforms ahead.

Looked at in terms of the improvement of economic returns, reform must advance a readjustment of the industrial structure. Readjustment of the industrial structure must attain the goal of increasing economic returns comprehensively; thus, furthering reform, readjustment of the structure, and improving economic returns must be closely linked and must complement each other. Specifically, three circumstances may occur. One is that there can be no effective readjustment of the industrial structure because the interests of various quarters prevent it. So long as the existing structural pattern is maintained, improvement of economic returns will depend on enterprises' tapping production potential, lowering consumption, and improving returns from the use of assets. The past 10 years of reform and opening to the outside world has been a period of substantial investment, yet some investment has yet to produce the production capacity that plans called for. Because some investment was not completely coordinated, it has yet to produce a comprehensive production capacity; thus the potential for improving economic returns is substantial. If this potential can be tapped, and some associated construction increased, economic returns can be increased. Although most economic returns in this regard are microeconomic returns, this will also have a very great effect on macroeconomic returns. Improvement of the economic returns of large key industries; large- and medium-sized construction projects, in particular, will directly and positively influence improvement of macroeconomic returns. First, reform will cause key production elements to flow from relatively low return enterprises to relatively high return enterprises. The economic returns thus generated are in the nature of structural returns, which are an important integral part of macroeconomic returns. So long as a situation prevails in which no great changes in the industrial structure occur as a result of technological process, structural economic returns play a marked role in giving impetus to economic growth. Second, when technological progress results in startling advances, and a number of new industries emerge giving rise to dramatic changes in the industrial structure, both microeconomic returns and macroeconomic returns rise markedly. The current readjustment of China's industrial structure is substantially of the two foregoing kinds. If reform produces real future advances, stirs enthusiasm for production further,

results in marked conservation and tapping of potential, and is able to break the fetters of central government departments and local governments at all levels for the organization of a rational flow of key production elements, there will be great hope for an increase in economic returns.

In short, the problems afflicting the country's industrial structure have accumulated over a long period of time, and are conflicts at deep levels in all regards. Readjustment of the industrial structure is a long-term process of gradual advance. We may have to go from the current serious structural imbalance to a more rational structure, and then move from a rational industrial structure to optimization and upgrading of the structure. Deep reforms should give impetus to readjustment of the industrial structure, and should simultaneously embody the requirements of stages in change of the industrial structure. A slow pace can adversely affect opportunities for readjusting the structure. A fast pace may hurt economic stability because of the stages that transcendental structural changes must go through, as well as the capacity of society to bear them. We must strive for a proper mix of structural readjustment and deep reform while maintaining economic stability, using reform to advance readjustment, and using gradual rationalization of the structure as a basis for effecting sustained, consistent, and coordinated development of the national economy.

PROVINCIAL

Fujian's Second Stage of Contract System Underway

91CE0167A Fuzhou FUJIAN RIBAO in Chinese
21 Nov 90 p 2

[Article by Huang Qingtao (7806 1987 3447) of the Zhangzhou City Policy Research Institute: "Difficult Points and Countermeasures in Second Round of Enterprise Contracts"]

[Text] Fujian Province is now vigorously engaged in a new round of enterprise management contracts. The previous round proved that the system of enterprise management contractual responsibility is an effective way for China to develop its economy. In line with the principle of first persisting in and second perfecting, by conscientiously summing up the experiences and lessons of the previous round of contracts, finding out the difficult points in the new round of contracts, and vigorously on our own accord taking appropriate measures, we will certainly make the second round of contracts successful.

Because of the defects in the contract system and the problems arising in contract work, some difficult points in the enterprises' new round of contracts are unavoidable. The main difficult points are how to determine a

contract's base, eliminate short-term behavior by enterprises, curb the excessively high income for managers, and strengthen the enterprises' restraining mechanisms.

In the new round of contracts, how are the abovementioned "four difficult points" to be resolved?

First countermeasure: practice guidance by classification to determine a contract's appropriate base. A contract's norms are its core, and a contract's base is the cornerstone for its norms. To determine the base in a fairly ideal way, first of all we must consciously guide the enterprise to accept a reasonable base; make clear the distributive relationship, taking into consideration the interests of the state, the enterprise, and the staff and workers; meet the demands of the state's industrial policy; and encourage the making of contributions to the state, "neither flogging the fast cows nor protecting the ones lagging behind." Next, in line with the principle of "separate types, specific rulings, stable majorities, and adjusted individual cases," while making reference to the profit rate on funds and the net output value rate on wages in the same field of endeavor in a given area, and based on the actual fulfillment of contracts in the previous period, the base is to be determined for each separate contract by enterprise type: 1) With regard to a rollover contract in which the original base was appropriate and in which the rate of increase or the proportionate share of overage returns was suitable, in general the base should not be changed. If the original base was on the low side, if an enterprise's technological transformation have produced results, or if after fulfillment of a contract there is concealment and fewer reports, then the base should be suitably adjusted upward. 2) With regard to a renewed contract, for an enterprise that is little affected by the market, in general the contract base is to be determined by last year's profit rate and last year's amount of profit turned over to the state. For an enterprise that is greatly affected by the market, or in which the task of technological transformation is heavy, the average figure of the actual results over the past three years is to be the base.

Second countermeasure: perfect contracts and make the system of assessing norms sound. For the contracts a system of reasonable assessment of norms must be set up to guide the behavior of an enterprise, a system composed of four principal norms: a results norm reflecting the distributive relationship between the state's interests and the enterprise's interests, including the profit made, the profit turned over to the state, the rate of increase, and the proportion overage return; the norm linked to the state's efficiency in controlling and regulating the total amount of an enterprise's wages; the norm for insuring an enterprise's technological progress in capital appreciation, composed of technological transformation, new product development, and good condition and appreciation of fixed assets; and the management norm for assessing an enterprise's management level, including the profit rate on funds, the labor productivity rate of all personnel, and the materials consumption quota.

Third countermeasure: correctly handle the distributive relationship and curb the excessively high income for management. First, half or more of an enterprise's profit after taxes should be used for technological development and self-development. Second, an enterprise's retained profit should be used in line with the sequence of working funds, technological transformation, welfare fund, and bonus fund. Third, 10 percent of the retained profit should be earmarked for the setting up of an enterprise's hazard fund. Fourth, abolish the practice of setting aside or dividing up income for individuals in management that exceeds the base. Fifth, when examining and calculating the income of a member of management, the yearly wage, and the various subsidies, the single bonuses should be included, and the highest income for the member must not exceed three times the annual average income of the enterprise's staff and workers. Sixth, if a manager's income exceeds the top limit stipulated in the "Contract Regulations," the part in excess should, without exception, be put into the enterprise's hazard fund and, in line with regulations, the wage regulating tax and the bonus tax be paid.

Fourth countermeasure: perfect the enterprises' self-restraining mechanisms and strengthen the government's macromanagement function. With regard to an enterprise's self-restraining mechanisms, we must, first of all, smooth the relationship between the party, government, and worker, make sound and perfect the factory director responsibility system, and insure that the factory director exercises his functions and powers according to law; establish the political nucleus role of the enterprise's party organization; give full play to the democratic management role of the staff and worker congress; and establish the position of the staff and workers as masters. Next, we must rely on systems to insure the operation of restraining mechanisms. The key to this is three systems: the party-government joint meeting system, which studies and then decides on administrative policy, product replacement, technological transformation, personnel appointments and dismissals, and other major issues; the staff and worker congress supervisory system; and the management democratic assessment system. With regard to the government's macromanagement, the specific departments in charge of a given field and the financial departments must regularly assess the situation in enterprise contract fulfillment; the labor departments must, based on actual results in the links of work efficiency, strictly control, examine and verify the total wages of an enterprise; the auditing departments must be conscientious in doing a good job of examining and checking property before a contract is signed, of the annual auditing of contract fulfillment, and of the final auditing upon expiration of the contract; and the industrial and commercial, banking, tax, and price departments must strictly supervise an enterprise's handling of finances, tax revenues, and prices.

Economic Reform Committee Assesses Fujian's Performance*91CE0167B Fuzhou FUJIAN RIBAO in Chinese
23 Nov 90 p 2*

[Article by Liu Zhifan (2692 2655 5672): "Carefully Considering Ways of Expanding the Opening Up to the Outside World, Exploring Furthering Reform in Fujian Province"]

[Text] A few days ago the provincial study committee on the restructuring of the economic system held its 1990 annual meeting. Emphasizing the evaluation of the current economic situation in Fujian Province and the careful consideration of ways to deepen reform and expand the opening up to the outside world in the province, the meeting made conscientious analyses and explorations.

A. Analyzing the Current Economic Situation in Fujian Province

Comrades at the meeting concluded that the overall situation in Fujian's economy, like that of China as a whole, is developing in a good direction. However, at present there also exist fairly serious difficulties and problems, which are prominently manifested in: the retail market is still in a slump, there is less withdrawal from circulation of ready cash of a commodity nature than there was in the same period of last year, there are more funds tied up in industry's finished products than there were in the same period of last year, production of state-run industrial enterprises is picking up fairly slowly, and economic returns are falling; financial expenditure is greater than revenue; and work in foreign economic relations and trade does not permit optimism.

To understand the reasons for the abovementioned difficulties and problems, there are the following points:

1. The economic slump and market slump in recent years were mainly caused by the dynamic in implementing the "double tight" policy being excessively strong, the requirements in its implementation being excessively pressing, and the creation of spot demand being inadequate. Fujian's growth in total supply was greater than that of China as a whole, but its growth in total demand was lower than that of China as a whole.

2. There are simultaneous contradictions in the product and industrial structures, and the pace of adjusting these structures is slow. The reasons are: restrictions stemming from the existing financial task completion responsibility system; short-term behavior caused by the contract system; unsoundness of the market in important production factors, as well as the restrictions caused by the psychological factors among staff and workers in an enterprise that is being adjusted; and the fact that social safeguards have not been set up.

Some delegates at the meeting thought that the current market slump was mainly a structural slump; that is, a slump in which "distortions in structure exist side by

side with insufficient demand," and that the current economic difficulties cannot be blamed mainly on the excessively strong dynamic of retrenchment.

3. The internal and external management environments of state-run enterprises cannot be perfected. State-run enterprises, particularly the large- and medium-sized ones, are placed in two difficult circumstances: the plan being difficult to manage and the market being difficult to adjust. In the relationship of duties, rights, and interests between the state and the enterprise, there still exists the state of affairs in which the relationship is unclear, unsuitable, unstable, and unsymmetrical. On the one hand, there has been an excessive drop in the financial administration's share of the national income. On the one hand, because the burden has been made heavier on the majority of enterprises, there is a tendency for them to retain less and less profit, and their capacity for self-transformation, self-development, and even for bearing losses themselves, has become less and less. The reaction of the delegates from enterprises who were at the meeting was that, since the beginning of the campaign for improvement and rectification, there has been more administrative intervention, and the originally little right of the enterprises to act on their own initiative is being constantly eroded from the top.

B. Thinking of Ways To Deepen Reform and Expand the Opening Up to the Outside World

The delegates at the meeting concluded that the only way to solve the current problems is to deepen reform, and they made the following suggestions:

1. Under the premise of effecting macrocontrol of the total amount, and in accordance with the demand for adjustment of the industrial structure, there should be an increase in the planned investment in capital construction and technological transformation, particularly in the latter. This would be a fairly effective way of "disposing of the disease" in the slump in which "structure distortion and insufficient demand exist side by side." Some delegates said that stress must be put on solving well the problems in the investment system, so that the localities and the enterprises become the main part of the system.

2. Put the focal point of improvement and rectification and of the deepening of reform on the state's industrial structure; improve economic results; get a good grip on furthering enterprise reform and the furthering comprehensive macroeconomic reform; grasp the central link of enhancing the vitality of enterprises; and build up management mechanisms that have the capacity to act on their own initiative, that are responsible for their own profits and losses, that are able to develop by themselves, and that can exercise restraint by themselves. "Separate streams for taxes and profits" is one direction to go, but we must now continue well the practice of contracts. At the same time, we must develop vigorous and reliable lateral unity between groups, organize and establish enterprise groups, promote the enterprise's property

rights to compensation for possession transfers and annexations, and do good experimental-point work on the stock system and on "separate streams for taxes and profits."

With regard to macroeconomic reforms, everybody thought that there must be a correspondingly tight grip on making comprehensive reforms of the planning, finance and tax, banking, and price systems; accelerating the establishment of a macroregulation and control system and an ordered socialist market system that suit the operating mechanisms of the planned commodity economy; and closely integrating macroeconomic reform with microeconomic reform. In the last two reforms, the effect of the law of value must be respected. Based on different economic statuses, different economic activities, and different economic periods, we must flexibly grasp the form, degree, and scope of their integration, and it is extremely important to get a good grip on the "degree." Some comrades said that, in the reform of the planning system, there must be a unified management throughout society in three aspects: volume of distribution, planning, and coordination. In the financial administration, the system of "eating in separate canteens" must gradually make the transition to the separate tax system or the separate tax task-fulfillment responsibility system. However, at the present time we must, in line with an appropriate readjustment of the industrial structure, gradually establish a standard system, and it would not be advisable to make the transition in an overhasty manner. In price reform we must adopt a policy in which regulation and deregulation are integrated, with regulation bringing along deregulation and management being within deregulation; and further, smooth out the proportionate relationships between agricultural products and industrial products, between basic industry products and processing industry products, improve price-formation mechanisms, sort out and standardize the state's list prices and directed prices and guide the market-regulated prices; and rectify the dual-track system in prices.

3. Continue to deepen the reform of the system of foreign economic relations and trade, and expand the opening up to the outside world. Further improve intangible and tangible conditions for investment; accelerate the development of markets for the production of important factors, such as technology, funds, labor, negotiable securities, house property and landed property, and other markets; and formulate standard laws and regulations for the management of foreign capital, and run well the three kinds of enterprises that are either partially or wholly foreign-owned. Also, we must, in a focused and selective manner, try out the experiences of state-run enterprises in managing foreign capital that is grafted onto them or in managing the benefits of contracts with foreign businessmen that accrue to state-run enterprises. In the reform of the foreign trade system, we must, in a step by step and planned manner, change the existing foreign trade task-fulfillment responsibility system to a united and standardized foreign trade management

system in where there is self-responsibility for profits and losses, management is opened up, industry and trade are unified, and the proxy system is practiced. We must appropriately expand the right of enterprises, particularly enterprise groups, to act on their own initiative in foreign trade management.

4. Many delegates emphasized that streamlined management must be an important part of the improvement and rectification and of the deepening of reform.

C. Getting a Tight Grip On and Formulating the Strategy for Economic Development in the Nineties

Many delegates thought that making full use of Fujian's advantageous conditions to establish cooperation between Fujian and Taiwan would be the strategy for Fujian's economic development in the nineties, and that this strategy would suit Fujian's situation. The achievement of this strategy for development, to a very great degree, will be determined by the progress of reform. Therefore, the task in the middle stage of reform will be more arduous. We must strive for a framework in which at the end of this century there will be set up in Fujian management mechanisms that integrate the planned economy with market regulation.

FINANCE, BANKING

Analysis of Debt Chains, Recommendations

91CE0050A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 9, 11 Sep 90 pp 50-53

[Article by Li Shourong (2621 1343 2837) of China Finance Publishing House: "The Debt Chains—Causes and Solutions"]

[Text] I. The Deeper Causes of the Growing Debt Chains

The debt chains are a product of the commodity economy. As long as there are commodity production and exchange and commercial and bank credit, there will be debt chains. However, the debt chains must be kept within proper limits in range and amount. Otherwise, they will have a negative effect on the production and management of enterprises and even normal economic activities as a whole. According to figures made public by the State Statistical Bureau, as of October last year, defaults between enterprises had exceeded 100 billion yuan, which equaled one-fifth of the circulating funds allocated to state-owned enterprises and accounted for 43 percent of the industrial loans extended by banks in the same period. The figure was also equivalent to 60 percent of last year's newly added loan funds. The debt chains have already become a serious threat to the normal production and operating activities of the enterprises and a very obvious national economic problem demanding prompt and effective solution.

As we all know, the circulation of capital is a comprehensive reflection of economic operations, and economic operations and the economic structure condition the circulation of funds. The defaults between enterprises, which are so serious as now being exposed, is a sequela of China's long overheated economy and unbalanced industrial structure and also a negative effect of the market cool-down, sluggish sales, and serious overstocking of goods, which have followed the strengthening of the economic improvement and rectification measures to control the overheated economic growth in the past few years. Specifically the deeper reasons for which the debt chains have grown to the present level include mainly the following.

First, it is the result of the imbalance of the industrial structure. For a long time in China, the development of the basic industries has fallen behind the processing industries, and the development of the big state-owned industries has fallen behind the small collectively and individually operated industries. Thus, in its rapid and lopsided development, the economy has tilted toward the following industries: 1) It has tilted toward the processing industries, especially those producing high-grade durable consumer goods, which have seriously slowed down the development of the energy, transport, raw and semifinished materials, and support-agriculture industries and which have become "bottleneck" industries hindering the steady and coordinated development of the economy as a whole. 2) It has tilted toward the shortsighted nonstate-owned small enterprises, resulting in many rural industries and small urban collectively owned enterprises competing with the big industries for raw materials, energy, and funds. These small enterprises are generally producing goods for everyday consumption and pursuing short-term goals, and their impact on the national economic development is very limited. This continuing situation has pushed up the prices of raw and semifinished materials. And, because of the enterprises' over-extended production scale and low efficiency in the use of funds, their need for operating funds is constantly growing, but their own funds are far from meeting this need. Since the supply and control of operating funds for enterprises were turned over to the banks in 1983, the state has stopped allocating additional operating funds to enterprises and called on them to supplement their operating funds with the profits retained by them. Actually, because the enterprises are shortsighted and fail to pay attention to future development, and because the profit they can retain is limited, and much of that has to go into the collective welfare funds, there is very little left to supplement their operating funds. For example, according to a survey by the Beijing Printing and Dyeing Mill, the mill retained 1.4 million yuan from profits in 1989, of which 15 percent went into the energy and transport fund and 10 percent into the budget regulating fund, and of the remaining 1.05 million yuan, payments for employees' medical care alone totaled 1 million yuan. From what little was left, the enterprise still had to pay bonuses and other welfare expenses. How could there be any money left to supplement the operating funds? 3) It

has tilted toward new projects regardless of whether operating funds are available. In the past few years, construction of new plants, enlargement of old ones, and technological transformation of enterprises have added new production capacities, but the required operating funds are not available. The state has stipulated that newly built enterprises must have 30 percent of their operating funds come from their investment in capital construction, but in the overheated economic movement, everyone is still inclined to start more and larger projects as quickly as possible. The strong investment desire and pursuit of high speed have caused investment demands to grow continuously. From 1980 to 1988, investment in fixed assets increased at an average annual rate of more than 20 percent, far greater than the average annual growth rate of the national income. A usual practice has also been established over the years: "Once a baby is born, it will always have milk," that is, once a new project is completed and put into operation, the state will supply the operating funds. Thus thousands of new capital construction projects are being started, and the banks alone have to supply the operating funds. Between 1984 and 1988, bank loans for operating funds increased to a total of 570.96 billion yuan, more than four times that between 1979 and 1983. Between 1979 and 1983, there was a surplus of 8.1 billion yuan in credit funds, but between 1984 and 1988, after a total of 160.4 million yuan of loan funds were released, there was still a shortage of 152.8 billion yuan. Almost all the money needed by the enterprises for production and operation had to be borrowed from the banks, as the enterprises' own funds were far from enough to meet their own demands. According to statistics, in 1983, the industrial enterprises' own operating funds accounted for 39.5 percent of the country's total budgeted circulating funds. In 1988, it dropped to 18 percent (it should have reached 30 percent at least). When money is tight and loans are reduced, the enterprises, which do not have enough funds of their own, are bound to become insolvent, the result of which is defaults among the enterprises.

Second, excessive investment in fixed assets and irrational structure of credit funds have lowered the efficiency in the use of funds. Excessive investment is an old problem in China's economic development, which occurred many times in the past and has begun a new round of large-scale increases in the last few years. In 1984 and 1985, the investment in state-owned fixed assets increased by 24.5 percent and 41.9 percent respectively, which were 1.8 times and 3.4 times the growth of national income in these two years. In 1986, total social investment in fixed assets came to 302 billion yuan, exceeding state plan by 32.5 percent; in 1987, it came to 364.1 billion yuan, exceeding state plan by 26 percent; and in 1988, it continued to increase. In the first half of 1989, total social investment in fixed assets came to 147.5 billion yuan, 8.06 billion yuan, or 5.2 percent, less than the same period of the preceding year, but the drop fell much short of the 28.8 percent reduction for the year called for by the state plan. The structure, especially, of the investment made was still irrational, mainly in that

the key projects in the central plan were cut back more than ordinary local projects, that productive construction projects were reduced more than nonproductive projects, and that while budgetary investment was reduced, extrabudgetary investment in construction kept growing. This has inevitably aggravated the irrational industrial structure and excessive investment and resulted in the irrational structure of credit funds, serious loss of funds, and low efficiency in the use of funds. Thus the amount of circulating funds available for production and operation has actually decreased, and as a result, the enterprises are running short of money and forced to default.

According to investigation findings, funds get lost or tied up mainly in the following ways: 1) Some funds are unreasonably retained by enterprises. Checking on its credit assets, a specialized bank discovered that 14 percent of its outstanding loans were overdue or dead. According to this proportion, the banking system in the country as a whole has nearly 100 billion yuan unreasonably retained by enterprises. 2) Some funds are used by enterprises to fill gaps. Mainly, it is the lack of operating funds after a large-scale investment project is completed and put into production. This growing gap is being filled almost entirely with bank loans. 3) Some funds are used to offset financial deficits. Since 1979, with the exception 1985 when there was a financial surplus, there has been a yearly deficit totaling 62.7 billion yuan. If the income from domestic and foreign loans is deducted from each year's revenues, the deficits will be even greater. This year's financial budget shows a deficit of 8,892 million yuan, or 42.3 billion yuan adding loans. The huge financial deficit means there are large amounts of overdrafts and advances in the central bank, which have aggravated the shortage of bank credit funds.

The irrational bank credit structure and the loss of large amounts of funds have clearly affected the efficient use of funds, and as more funds are being tied up, the shortage of funds is becoming more acute. In 1989, the amount of funds tied up in finished products of state enterprises in the budget increased by 39.1 billion from that at the beginning of the year, and the increase was equivalent to 56 percent of the increase in the country's industrial circulating fund loans. According to statistics of the National Industrial and Commercial Bank of China, funds tied up by overstocking and settlement of accounts total 50 billion yuan in China at present. A survey of 40,000 key industrial and transport enterprises showed that the turnover time of circulating funds by industrial enterprises was 201 days in 1989, 33 days more than in 1988, and the amount of circulating funds used per 100 yuan of output value and sales increased by 7.80 yuan and 3.63 yuan respectively over the previous year. It is obvious that the sharp increase in all kinds of irregular use of credit funds, such as using of funds for other than agreed-on purposes, dead loans, overdue loans, tying up of funds in finished products, and so forth, which have affected the efficient use and aggravated the shortage of funds, is also a cause of defaults among enterprises.

Third, the sluggish market and slow sales in recent years are the direct cause of defaults among enterprises. During the economic improvement and rectification, money supply is tightened to check the excessive economic demands; in addition, the hysteresis effect of last year's panic buying on the market and the fact that the prices of many high-grade durable consumer goods have remained high have artificially widened the gap between price and value and exceeded the consumers' ability to accept; and many commodities are low in quality, high in price, and not what consumers want, and as a result sales are slow, leaving large quantities of commodities in storage. Consequently large amounts of circulating funds cannot be used and circulated effectively, which is also a contributing factor to defaults among enterprises. However, the writer thinks, the current sluggish market is not one of the deeper reasons for the serious default problem among enterprises. Therefore, measures to resolve the debt chains problem should not be focused on the sluggish market.

II. Measures To Deal With the Debt Chains

The above general analysis shows that the deeper reasons for the serious debt chains problem now facing us are themselves the result of the long-standing fact that our macroeconomy is out of control and our industrial structure is out of balance. Therefore, to clear up the debt chains, we must adopt suitable and comprehensive measures, and the emphasis should be on finding a permanent cure and preventing paying off an old debt only to incur a new one or paying one and borrowing from another.

1. Guiding actions according to circumstances and accelerating the readjustment of the industrial structure—this is the fundamental solution to the debt chains problem. In the past few years, by expanding the enterprises' decision-making power and allowing them to share the profit, taxation instead of delivering profit to the state, substituting loans for allocations, and promotion of the contract system, enterprise management has gained some vitality, but the budgetary restraint has weakened, and the enterprise system without a balance between rights and responsibilities has basically not changed. The only difference is that the enterprises have switched from eating out of the big pot of the treasury to eating out of the big pot of the banks. Some enterprises have used operating fund loans to start capital construction projects; some localities, departments, and enterprises have borrowed money to finance duplicate imports and overlapping construction projects, giving no consideration to the rational distribution of resources; and some enterprises have blindly switched to producing "hot" items regardless of market conditions. As a result, the industrial structure is becoming more and more irrational. There is not only disproportion among agriculture, light industry, and heavy industry, but also serious imbalance within the industrial structure. Hence, the enterprises keep producing, overstocking, and tying up funds. Comparing 1988 and 1983, loans for operating funds extended by banks to state enterprises increased by

245.5 billion yuan, or 167 percent, far greater than the increase in gross national product and national income over the same period. As of the end of 1989, the funds tied up in finished products by state industrial enterprises totaled nearly 100 billion yuan, of which 40 billion yuan, or 81.5 percent of the additional loans extended by the banks to these enterprises for operating funds in that year, were used improperly. The additional operating funds borrowed were tied up almost entirely by unreasonably large stocks of goods. Therefore, the fundamental measure to resolve the debt chains problem is to readjust the industrial structure and product mix and adopt a policy of promoting the good and eliminating the bad. Some of the superfluous enterprises and products should be eliminated, and the production of goods, which are readily marketable and can earn more foreign exchange, should be increased correspondingly.

At present, the clearing of the debt chains poses a severe test to the enterprises. Owing to the straitened external environment, debts to be paid, and fierce competition within trades, some enterprises are on the verge of bankruptcy, some are operating under capacity, and workers and staff members are out of jobs. Therefore, in dealing with the difficult debt situation facing the enterprises, we should guide our actions according to circumstances; in clearing up the debts among the enterprises, we should apply the economic lever and follow a credit policy of dealing with different enterprises in different ways and providing support to those with better potentials in order to apply pressure on internal enterprise management and administration; and we should speed up the readjustment of the industrial structure and product mix to achieve better economic results. We should not adopt a policy of supplying large amounts of operating funds, because on the one hand more currency has been issued than justified by economic growth in recent years and there is already too much currency in the market, and on the other hand total social supply has fallen short of total demand and there is already a surplus purchasing power in society. Not only is such a policy ineffective and likely to lead to just the opposite, but it will also aggravate inflation and cause greater difficulties to the economic improvement and rectification and the in-depth economic reform.

2. We should carry out in-depth reform of the financial system and put an end to the passiveness in supplying money. In the past few years, the enterprises have sunk more and more deeply in debt. Besides problems of the economic structure and the enterprises' own managing mechanism, another important reason is the problem of the present financial system and the fact that the scale of credit has gone out of control. In the past decade, a series of reforms have been carried out in the financial system, and great achievements have been made, but the relationship between banks and governments and between banks and government financial departments in the management of credit has not been completely rationalized. Loans are made as ordered by the local governments, and when there is a financial deficit, the government just makes an overdraft or gets a loan from the

banks. The banks' power to make their own decisions on money supply and credit scale according to the objective need of economic development is very limited. Since the establishment of the central bank system, the specialized banks should have become truly independent business operations making their own decisions and responsible for their own profits and losses, but, in fact, they have not. From the enterprises' viewpoint, the economic reform in the past few years has not created conditions for the enterprises to face the trials in market competition. Instead, it has only delegated some power to the enterprises, allowed them to retain some profits, and adopted some favorable policies. And the practice of having all funds supplied by the banks has placed the enterprises in a passive position.

In clearing up the debt chains, a lesson should be drawn from the above. The regulatory and controlling role of the banks must not be weakened. On the contrary, the opportunity must be seized to push forward the reform of the financial system and strengthen the functions of the banks. First, the practice of having all circulating funds supplied by banks should be changed. Especially because the relationship between the planning, financial, and banking departments has not been rationalized, the practice of having the banks alone manage the circulating funds has actually abetted the system of supplying the enterprises with funds free of charge. Some enterprises give no consideration to the cost of money, take no risks, and, to stay in business even with borrowed money, keep asking for more loans from the banks. This state of affairs must be changed. A system of enterprises supplementing their own operating funds should be established, under which enterprises will be required to provide at least 30 percent of their own operating funds, and if they don't, they will not be given any loans. Second, a sound and standardized credit system should be established. Commercial credit transactions should be made with negotiable instruments, and the economic obligations between creditors and debtors should be strictly enforced. Vigorous efforts should be made to promote the acceptance, discount, and mortgage loan operations so that commercial credit and bank credit will accommodate each other and keep each other in check. Third, it is necessary to strengthen management of bank assets and liabilities. In China, credit is a major part of enterprise assets and liabilities: 70 percent of the original value of all enterprise fixed assets is paid for with bank loans, and only a small portion is owned by the enterprises. Therefore, it is necessary to foster the enterprises' ability to develop on their own, put a brake on borrowing, and strengthen debt management. At the same time, it is necessary to strengthen the management mechanism of the banking institutions and enable them to operate independently and take their own risks.

3. It is necessary to adhere to the policy of tightening control over finance and credit and curtail investment. Since the latter half of the last year, China has experienced a sluggish market, slow sales, and overstocking of goods. This economic phenomenon often can create a

false impression, as if there is a glut of goods and materials and an oversupplied buyers' market, and, therefore, we should increase investment and abandon the policy of tightening control over finance and credit. In fact, China is different from the Western countries. When an economic crisis or recession occurs in Western countries, the market slumps, and enterprises find themselves unable to make payments. It is caused by the contradiction between production growth and relatively insufficient effective social demand, and the usual way to deal with it is to increase investment to stimulate consumption and push up demand. If we copy the Western countries' method, the result will be just the opposite of what we want.

Let us make an objective analysis: (a) The current sluggish market is caused not by total supply exceeding total demand and insufficient effective demand, but mainly by the irrational industrial structure and product mix and unwanted products. Many products are low in quality but high in price. Only about 20 percent of the products are what consumers really want, and for these products it is still a sellers' market. (b) The hidden danger of high inflation still exists. About 60 billion yuan of paper money were issued in the past few years in excess of what was justified by economic growth, a part of which has been recovered mainly by credit. But there is still too much money on the loose, and the latent buying power is tremendous. When there is disturbance in the market, this latent buying power can become a big problem. (c) There are serious gaps in bank loans. New construction projects completed and put into operation in the past few years require tens of billions of yuan as working funds. The food, foreign trade, coal, and other systems have sustained losses as a result of following government policies, for which they should be, but are not, compensated, and the banks are forced to extend additional loans to help them maintain normal production and business activities. (d) There have been changes in the composition of credit funds and a relative reduction of funds available. In the past few years, the sources and composition of bank credit funds have been changing, as an increasing amount of funds are used to buy various kinds of bonds and debentures and write off credit losses. And the available credit funds are not fully utilized, with a considerable part lying idle and a drop in economic returns. As a result, relatively less funds are available for reinvestment in production and business operations. (e) More banks are operating at a loss. Owing to the readjustment of interest rates on deposits and loans and the introduction of inflation-proof savings deposits, the rate differences have narrowed down, and an increasing number of banks are losing money. In 1989, savings deposits equaled 85 percent of all types of deposits put together and 72 percent of loans, an increase of 11 and 25 percentage points respectively over the previous year. As the interests rates on one-year savings deposits and one-year loans are about equal, and as more interests have to be paid on the inflation-proof savings deposits, the banks are actually paying higher interests on deposits and charging lower interests on loans, and there is the danger that all banks will be operating at a loss. (f) The financial

situation remains extremely grim. Except for one or two years, there has been a huge financial deficit year after year in the past decade. In the next few years, debt repayment will hit a peak, and if revenues cannot be increased significantly, the deficits are more likely to grow than drop. Then, more currency will have to be issued than justified by economic growth, at the expense of the banks. Therefore, in the course of clearing up the debt chains, the policy of tightening control over finance and credit must be followed unwaveringly, and bank credit must be strictly controlled. If the bet for the sluggish market to turn around, production to pick up, and enterprise defaults to be resolved is placed on loosening the money supply and increasing the credit input, then the already inflated total demand is bound to grow further, and the work to improve and economic environment and rectify the economic order, which has begun to show results, will end up in failure. On this we have learned numerous lessons in the past. Now again we are faced with the difficult economic situation of a sluggish market and serious debt chains. We should remember the lessons on retrenchment we have learned several times in the past and adhere to the policy of tightening control over finance and credit. Indeed, to tighten control over finance and credit, we should at present follow the currency and credit policy of "controlling the volume of credit and currency issue, readjusting the credit structure, guaranteeing funds for the key projects, cutting back on ordinary projects, and making timely readjustments" and, in the light of the major economic problems and on the basis of controlling the volume of credit and currency issue, pay attention to readjusting the credit structure, increasing the supply of essential goods, and maintaining the continued, steady, coordinated, and appropriate development of the national economy.

4. To clear up the debt chains, it is imperative to strictly enforce the law. There is now a rather prevalent tendency to neither observe nor strictly enforce the law. Though we have long since promulgated the "contract law," "bankruptcy law," and other economic laws and regulations, which enterprises have yet been declared bankrupt to repay their debts? Therefore, to clear up the debt chains, it is not enough to rely on moral and economic means alone. It is also imperative to use the legal means to make sure that laws are observed and strictly enforced. Contracts must be followed strictly and in good faith among enterprises and between enterprises and banks, and the judicial departments must act according to law. Otherwise, it is impossible to maintain good economic order and resolve the debt chains problem.

Distribution According to Capital in Socialist Economy

910CE0048A Chengdu CAIJING KEXUE [FINANCE AND ECONOMICS] in Chinese No 5, 25 Sep 90
pp 28-30

[Article by Chen Yongzhong (7115 3057 1813) of the Institute of Social Sciences of Sichuan Province: "Two

Problems of 'Distribution According to Capital' in the Socialist Economy." Responsible editor: Zhao Lei (6392 4320)]

[Text] "Distribution according to work" is the principle of socialist distribution; there is not the slightest doubt about it. However, in the actual practice of the socialist economy of today, there has appeared, in addition to the predominant principle of "distribution according to work," also, to some extent, the principle of "distribution according to capital." How are we to understand the character of "distribution according to capital," and in what form does it manifest itself? These are important questions which research in socialist economic theory must answer.

1. The Character of "Distribution According to Capital" in the Socialist Economy

In the socialist economy there exist two kinds of "distribution according to capital," which are completely different from each other in character. One kind is distribution according to capital, which is of a capitalist character, and one is distribution according to funds, which is of socialist character.

In enterprises of the socialist shareholding system, distribution of dividends and bonus falls within the category of distribution according to funds, because it depends on the ownership of funds, and because it is income obtained according to the larger or smaller amount of share funds invested. Regardless of the source of dividends and labor, distribution is here still based on the ownership of funds. This kind of "distribution according to capital" and the socialist distribution according to work are two economic categories that are completely different in their characters and are set up on a completely different foundation for distribution. Distribution according to work is an economic category unique to socialism. In socialism, making distribution of consumer goods to individuals, their remuneration and bonuses, dependent on the quantity and quality of goods which they provide to society through their work, these are all patterns of socialist distribution according to work. "Distribution according to capital" is the economic category common to all commodity economies. In capitalist society, "distribution according to capital" is a distribution form by which the capitalist distributes according to capital some of the surplus value, while in the socialist society, "distribution according to capital" is a form of distribution by which the owner of the funds distributes a part of the net social income based on fund ownership rights, and in which dividends, bonuses, interest on bonds, and interest on savings, all have the character of a socialist "distribution according to capital." This is the major form of "distribution according to capital" in socialism. Because socialist society is a transitional society that has evolved from capitalism, it retains a few traces of capitalism in political, economic, and spiritual respects. In the economic sphere, it still preserves a few elements of the distribution according to capital, i.e. a "distribution according to capital" that still

preserves some capitalist character. In the following we shall analyze the two kinds of "distributions according to capital" as the two differ in their character.

One kind of "distribution according to capital" is indeed a distribution according to capital; it exists to a very limited extent. Since the end of the First Five-Year Plan in the middle of the 1950's, and after the socialist transformation of China's private industry and commerce, private capitalist enterprises ceased to exist. Apart from the existence of such vestiges of "distribution according to capital" as capitalists collecting fixed interests, there did not exist anymore any distribution according to capital in the area of social reproduction, and when fixed interests were abolished in 1967, these vestiges also disappeared. The Third Plenary Session of the 11th CPC Central Committee, which was convened after the "cultural revolution," decided on a policy of reform and opening up to the outside world, adjusted the ownership system, changed the single public ownership structure, and gradually shaped a pluralistic ownership structure in which public ownership was dominant but in which individual economy and private economy were allowed as subsidiary components of the economy. With the deepening of the reform and the development of the socialist commodity economy, private enterprises and individual enterprises appeared in the urban and rural areas of China, employing a limited number of workers, and at the same time establishing many Chinese-foreign joint ventures, contractual joint ventures, and wholly foreign-owned enterprises. Undoubtedly, these enterprises have capitalist character, at least to some part. Existence and development of these enterprises have a positive side because they promote production development, induce technical advances (the advanced technologies of foreign-invested enterprises have been very useful for China), and also solve the large unemployment problem. By fully utilizing the positive factors of these enterprises, they can be made into useful supplements to the socialist economy. However, there are also negative sides to the existence of these enterprises because they are self-serving, exploitative in character, with a tendency toward indiscriminate growth, and because they attack the socialist planned economy. It is only by effectively restraining the negative factors of these enterprises that they can be truly useful to the socialist economy.

The essence of the problem is that the socialist system and the capitalist system are fundamentally antithetical. The socialist system must naturally deny the legitimacy of allowing a person to pursue his interests by possessing ownership rights to means of production, and the legitimacy of distribution according to capital. People must pursue their individual interests only by working, and any disparity of labor must create disparity in material benefits. These are the fundamental reasons for distribution according to work to become the principle of socialist distribution. However, because China is still in

the initial stage of socialism, development of its productive forces is rather limited, and there exists, furthermore, an unevenness and much differentiated development at different levels of its society. As a consequence, China must at present still acknowledge the existence, within certain limits, of private ownership of means of production and must acknowledge, on certain conditions and within certain limits, the necessity of distribution according to capital. This acknowledgment is due to China's inability to completely do without the private ownership system during the initial stage of socialism, and it is not at all the case that distribution according to capital as such is a principle that is suited to exist in socialism. Precisely because of this fact, socialist states have adopted policies of utilizing and restricting private enterprises, allowing it to exist within certain limits. It is thus a matter of utilizing the positive elements of private enterprises in service to the socialist economy and of restricting their negative elements to reduce their adverse effects on the socialist economy. Because socialist countries have adopted this policy line, the states are also subjecting private enterprises to strict controls and legal restraints. To preclude any unfairness in distribution, the state may, through the method of taxing incomes, transfer any excessively high portion of private income, especially the private income derived from "distribution according to capital," to public ownership. In this way a certain restraint is imposed on the scope of distribution according to capital and on its further development. Because these types of enterprises have, for the time being, a positive effect in that they promote the development of China's productive forces and the development of commodity economy, their existence and a certain measure of their development is necessary.

The other form of "distribution according to capital" in the socialist economy is distribution according to funds. This is a form of distribution practiced by enterprises of the socialist shareholding system. In enterprises of the socialist shareholding system, the shareholders are not capitalists, but are worker collectives or individual workers at different levels of the society. It is a shareholding system without exploiters, and without the participation of capitalists. It is a shareholding system in which the public ownership system predominates, because by far most shares are held by the state, which represents the interests of all the people, and by enterprises which represent the collective interests of staff and workers. The share fund of enterprises of this shareholding system does not consist of the exploitative income of capitalists, namely "capital," but is composed of the investments of the working people at various levels of the society. These investments belong to the workers; they are accumulations created for the benefit of society or for the benefit of worker collectives, or are the personal incomes earned by individual workers through their own labor. Enterprises of the shareholding system use the funds invested by the workers at different levels of the society to buy their means of production, and to provide the key material elements required in

production, as without these key material elements of production, no productive activity could take place. The means of production of enterprises of the socialist shareholding system are not derived from capital that originated from the exploitation of others, but are derived from funds created by the prior work of working people. Capital is a means of exploiting others, but funds have no exploitative character; they merely create social wealth, and, moreover, are precondition for additional income for the workers. Dividends and bonuses distributed to staff and workers are merely proportionate remunerations to staff and workers for having provided funds. We must under no circumstances mix up in our discussion the shares that constitute funds of enterprises of the socialist shareholding system with capital.

In enterprises under the socialist shareholding system, bonuses "hong li" [4767 0448] are distributed according to the number of shares in the hands of the particular shareholders. As to their very nature, these bonuses cannot be classified as "distribution according to work," because distribution was not effected as an equivalent return for the quantity and quality of products provided by the worker to society. Some comrades have argued for the rationality of the socialist shareholding system by declaring the "distribution according to capital," as it exists in enterprises of the socialist shareholding system, to be a special kind of distribution according to work, namely a distribution of "work of the past," or as the distribution of accumulations derived from past work of the workers. It is inaccurate, and cannot possibly be maintained as a valid argument, to consider distribution according to past work as a special kind of "distribution according to work," because past labor has already been transformed as fruit of labor into accumulation or individual incomes, and by introducing it into the production process, it has been transformed into newly invested funds. Precisely because of this fact, the "distribution according to work" that Marx speaks of always refers to present "work," i.e. the "work" of live labor. It refers to quality and quantity of products created by live labor, and not labor of the past, not dead "labor" which has undergone materialization. The funds invested by the shareholder, whether they are in the form of publicly owned shares of the state, collectively owned shares, or privately owned shares of an individual, are all not "work" that represents live labor, but are accumulations of "labor"—that is—dead labor, which in the past has already undergone materialization. This "work" which has been transformed into funds is fundamentally different from live work which produces products of work. It is not permissible to assert the rationality of the socialist shareholding system by arguing that its dividends and bonuses are a special kind of "distribution according to work." An argument like this could not possibly be maintained as theoretically valid. We must justly and forcefully admit that this is also "distribution according to capital." However, we must recognize that this is a new type of "distribution according to capital" of a socialist nature. According to yet another opinion, any shareholding system is a "capitalist system," and

instituting and developing any shareholding system is essentially moving toward the capitalist system and may cause disintegration of the socialist system of public ownership, because instituting a shareholding system will result in "distribution according to capital." Furthermore, if state-run enterprises are transformed into enterprises with "distribution according to capital," it would amount to a revival of capitalism. The error of this viewpoint consists in mixing up the differences between capital and funds. In essence, we have to admit that the distribution of bonuses by enterprises of the shareholding system under the socialist system is of the nature of "distribution according to capital." However, the funds are here not capital of a capitalist nature, but are funds of a socialist character. The "eggs" laid by capital, i.e. surplus value which the capitalist seizes without remuneration, are, in the socialist economy, materialized labor derived from the live work of workers at different levels of society, of different scopes, and of different categories, and are used to buy shares as investments in the production of the enterprise. To distribute to the investor, i.e. the shareholder, an amount of bonus commensurate with the number of shares he holds, makes absolute sense and is a form of supplementing the legitimate income of the workers.

2. Forms of "Distribution According to Capital" Manifested in the Socialist Economy

In the socialist economy, "distribution according to capital" comprises two types: distribution according to capital and distribution according to funds, and, correspondingly, it is in these two differing forms that the distributions will appear: The form in which distribution according to capital manifests itself is essentially in profits that are surplus value. The form in which distribution according to funds manifests itself is in dividends or bonuses that are essentially income of society, income of collectives, or the supplementary income of workers.

Profits distributed according to capital are transformed surplus value created by the workers and reflect the exploitative relationship between capital and hired labor. Private enterprises that now exist in China are of a capitalist character, and the profits which the owner-manager derives from his private enterprise is squeezed out from the surplus value created by his hired labor. We must take note of the fact that distribution according to capital, which to a certain extent exists in the socialist economy, has no adverse effect on the national economy as a whole. We must not have the idea that socialism is something of highest purity, because it is per se a transitional social system and will naturally manifest varieties and complexities in its economic patterns. In the distribution system, we firmly maintain "distribution according to work" as the dominant form, but at the same time also permit, within certain limits and to a certain extent, "distribution according to capital." The principle of maintaining distribution according to work as a dominant form and other distribution forms as subsidiary forms agrees with the objective demand posed by the economic development during the initial stage of

socialism. This is the major principle which we must firmly uphold. Of course, the existence of an unfair distribution system demands of us that we must face the essential elements of the problem and take note of the fact that whatever is obtained from the distributions of investments in private enterprises is surplus value created by the workers. It is therefore necessary to enhance management and strengthen control in all cases of distribution according to capital. Such would be possible, for instance, by levying an excess-income tax and thereby restrict excessively high incomes of owner-managers of private enterprises.

The form in which distributions from investment funds appears are dividends and bonuses. In the case of enterprises of the socialist shareholding system, dividends and bonuses distributed to shareholders of all categories are not surplus value that capital obtains from the exploitation of workers, but are that portion of the net income created by the workers which remains after making all necessary deductions. Here there is fundamentally no reflection of any relationship of class exploitation, but rather a reflection of mutual assistance and cooperation between workers at different levels of society with basically identical interests, and of a well-adjusted relationship between long-range interests and immediate interests, and between interests of the whole, partial interests, and interests of the individuals.

Dividends and bonuses, as forms of distribution according to funds, are also part of the profits, but they are fundamentally different from those profits that appear in the distribution according to capital. The latter are surplus value created by the workers, they are exploitative income and have a capitalist character, while the former are a portion of the net income created by the workers for society, for the enterprises, and for themselves; no exploitative relationship is reflected in them. In enterprises of the socialist shareholding system, shares held by the state are state investments and are by nature public property owned by the whole people. Any bonuses derived from these shares are in the ownership of the state, representing the interests of the whole people. If these bonuses are distributed in the form of distribution according to funds, their socialist character is very obvious. Shares held by an enterprise are enterprise investment and have the character of collective ownership. Any bonuses derived from these shares are in the ownership of the enterprise, representing the whole body of enterprise staff and workers. Such bonuses will, moreover, be used mainly to expand reproduction; their socialist character is also very obvious. Shares bought by an individual are investments of that worker in the enterprise, and any dividends and bonuses that he will derive from this investment is subsidiary income of the individual person concerned. It is a kind of remuneration of a reward nature for the employee or worker for providing the enterprise with production funds, and is as such without any exploitative character. Under the socialist system, there are no socioeconomic conditions that could allow share funds to change into capital or

allow shareholders to change into capitalists. There is also no economic basis that would allow snatching away surplus value by exploiting hired labor, and doing so in reliance on one's ownership of capital. We may express it in this way: "Distribution according to work" is the fundamental principle of the socialist system for the distribution of consumer goods to individuals, while "distribution according to capital" is a necessary supplement to "distribution according to work."

INDUSTRIAL

Statistics Bureau Announces 10-Month Industrial Production Figures

91P30059A Beijing JINGJI XIAOXI BAO in Chinese
21 Nov 90 p 1

[Text] The State Statistics Bureau recently announced that the rate of recovery of industrial production in China quickened in October. Gross value of industrial output [GVIO] was 168.8 billion yuan. Allowing for the National Day holiday, average daily output in comparative prices was 4.11 billion yuan, an increase of 5.2 percent over September and the largest monthly increase this year. Cumulative GVIO for January through October stands at 1.5716 trillion yuan, an increase of 4.1 percent over the first 10 months of 1989. Of this, output value of light industry increased 4.9 percent and heavy industry 3.2 percent, while that of enterprises owned by the whole people increased 1.4 percent and collectively owned enterprises by 3.8 percent. Of the latter, township-run industrial output increased 8.5 percent, urban collective industries remained steady, and industries of other economic types increased 44.7 percent.

The authorities cited four primary reasons for the rapid turnaround in industrial production over the past 10 months:

Rapid industrial growth in the coastal areas: Of the five regions in China with growth rates exceeding 20 percent—namely, Xinjiang at 21.4 percent, Jiangsu at 21.4 percent, Zhejiang at 21.9 percent, Guangdong at 27 percent, and Hainan at 38.3 percent—the four coastal provinces accounted for 45.9 percent of China's overall 5.8-percent increase in output value this month. One-half of the areas with growth rates between 10 and 20 percent are located in China's coastal regions.

—Growth of light industry has clearly accelerated. On the one hand, processing of farm products has entered the peak period and the major agricultural provinces' output has clearly increased over September, while on the other hand output of most durable consumer goods has rapidly picked up.

—Growth of township-run industries and industries of other economic types has accelerated. New output value registered 5.82 billion yuan, boosting total industrial growth in the country by 5.5 percentage points. The October output value of township-run

industries in Jiangsu and Zhejiang alone increased 1.75 billion yuan over the same period last year, raising the overall output value of China's township-run industries by 10.8 percent.

—In terms of base figures, October of 1989 was the country's low point in industrial output, compared with this October's 2.3 percent rate of growth.

Because the current cycle of industrial reproduction is still not smooth, industrial economic benefits have not shown a turn for the better, the growth rate of energy and raw materials production continues to lag, and other outstanding problems, the State Statistics Bureau has called everyone's attention to the following priority production tasks for the final two months of 1990: To maintain stable development and ensure beneficial results, we must promote and improve the cycle of industrial reproduction, emphasize improving industrial economic benefits, protect and expand upon the results of structural readjustment in industry that have already been achieved, focus on dovetailing this year's and next year's production, and avoid crash production of any type.

Fei Xiaotong: State Enterprises Must Spur Border Region Industrial Growth

91P30059B Wuhan JINGJI XINXIBAO in Chinese
22 Nov 90 p 1

[Article: "Fei Xiaotong Says That Border Region Large-Scale Enterprises Should Become Local Industries' Engines of Development"]

[Text] After a recent inspection of Inner Mongolia Autonomous Region, sociologist Fei Xiaotong [6316 1321 6639] pointed out that the minority nationality border regions should step up cooperation with coastal and interior cities, combining their superiority in natural resources with the intellectual, financial, and material superiority of China's economically developed regions to develop their local industries. And the nationality border regions' large-scale backbone enterprises should expend their resources to become these local industries' engines of development.

Fei Xiaotong said that economic takeoff in these areas cannot rely solely upon development of forestry and animal husbandry, but more importantly on an upsurge in industry. With their abundant mineral and energy resources, these regions should begin by exploiting mineral resources but follow up with processing, manufacturing, and sales abroad to bring about their comprehensive economic development. At present, however, the minority nationality border areas have a poor industrial base from which to proceed, so poor that even the handicraft industries are all undeveloped. Therefore, to rely entirely on their own efforts to develop modernized industry is unrealistic. Thus they must take the initiative to search out and then bring in resources from outside that will benefit their industrial development. This year southern Jiangsu brought in technical resources from

Shanghai on an extensive scale, enabling the township and town industries of southern Jiangsu to develop by leaps and bounds. The minority border areas can learn a lot from this practice.

Fei Xiaotong also pointed out that one method with great potential for developing border region industry is for the large state-run industries in these areas to carry out systematic and planned dissemination of resources for local enterprises. These large-scale backbone enterprises have definite technical-economic strength. In the past, however, owing to systemic factors, these key enterprises did not develop effective coordination with local enterprises, thereby idling the human resources within these enterprises, forcing them to beg for resources. From now on, in the process of developing minority nationality border area industry, the large-scale backbone enterprises should actively extend their resources, assisting the localities to establish groups of small-scale industries that are centered around key enterprises. Besides distributing products and spare parts, the large backbone enterprises can also disseminate talent, technical knowhow, financial resources, and materials to assist the localities to establish raw material production bases for the benefit of these local areas. In this way, the number of large-scale enterprise factories need not increase, more land need not be used up, and more workers need not be recruited. Production can be developed, raw materials can be locally supplied, and local industries can also attain development, thereby satisfying all sides. Baotou Iron and Steel Works has already made huge strides in this regard, achieving good results and attaining simultaneous development for all sides. This is something well worth popularizing.

Projections for 1991 Chemical Products Market

91CE0181B Beijing ZHONGGUO WUZI BAO
in Chinese 23 Nov 90 p 2

[Article: "Next Year's Chemical Industry Products Market"]

[Text] Next year there will be a small disparity between output and demand in the greater part of China's chemical industry products. In society there will be a basic balance between total resources and total demand, and on the chemical industry products market there will appear a new setup in which shortages, balances, and unmarketabilities exist side by side.

According to a disclosure by an authoritative source in the Ministry of Chemical Industry, in 1991, in line with the development of various departments of the national economy and with market demand, there will be an appropriate increase in the production of chemical products in short supply and an adjustment of the production of chemical products in good supply, and the production of chemical products will grow at a rate of six percent. For the 47 kinds of chemical products that the Ministry of Chemical Industry is responsible for managing, the

total resources and the distributed resources will respectively increase 6.5 and 17 percent as compared with the figures in 1990. The total resources will meet 94 percent of the estimated need, 1.5 percent more than they did last year; of them, 16 kinds will meet 70-90 percent of the need, and 20 kinds will meet over 90 percent of the need.

Next year the Ministry of Chemical Industry will give priority to making arrangements for the production of chemical products for use in agriculture and for the production of directed-plan chemical products, to meeting the need for production by the military industry of special-purpose chemical products, as well as to meeting the needs of ("double guarantee") [shuang bao 7175 0202] enterprises and of large- and medium-sized key state-run enterprises. Products that do not conform to the industrial policy, products that are in surplus supply on the market, and products that are low in performance, high in energy consumption, poor in results, or backward in production technology must be limited, and in individual cases their supply of raw materials must be stopped. With regard to raw materials needed to support agriculture, such as those for pesticides and chemical fertilizers, we must continue to practice the method of assigning quotas to provinces and cities and of "putting labels" on enterprises. To enhance its capacity for macro regulation and control, beginning in 1991 the Ministry of Chemical Industry will conduct experiments at selected points on guiding the marketing of four important chemical products: pure benzene, methanol, polyvinyl chloride, and alcohol. The distribution and orders for the five petrochemical materials that the China Petrochemical Corporation is responsible for producing and distributing—polyvinyl, polyacryl, polyesterene, ABS resin, and (?tubular Dacron resin) [pianji dilun shuzhi 3651 0495 3321 3229 2885 5176]—will be maintained at the 1990 level. This information was obtained by this reporter at the 1991 national conference on placing orders for chemical industry materials.

According to a briefing given by an authoritative source in the China Petrochemical Corporation, with regard to the volume of distribution of the abovementioned five petrochemical materials, including polyvinyl, for some the volume could be lower, and for others the volume could be higher, than this year's level. Moreover, with regard to four petrochemical products—glycol, terephthalic formic acid, (?nylon 66-ide) [nilong 66 yan 1441 7893 66 7770], and vinyl cyanide—in which output and demand are linked, the total volume of their distribution and orders will also be basically kept at the 1990 level. Also, there will be three products that the corporation will help to retain for negotiated purchase and negotiated sale.

Industrial Production Up

OW2812074590 Beijing XINHUA in English
0705 GMT 28 Dec 90

[Text] Beijing, December 28 (XINHUA)—Industrial production continues to rise in China and its sales

volume of industrial products has achieved rapid increases in the fourth season of the year, according to today's PEOPLE'S DAILY.

The continued recovery of national economy in November is due to large-scale investment and bank credit, according to government economic administration departments.

The statistics showed that by the end of November this year, the investment in fixed assets by state-owned enterprises stood at 165.3 billion yuan, up 8.2 percent over the same period last year.

By the end of November, the outstanding bank credit stood at 1453.4 billion yuan, an addition of 212.5 billion yuan over the beginning of this year and 85.2 billion yuan over the same period last year.

These loans are mainly used to guarantee purchase of agricultural products and by-products, support industrial growth recovery and fixed assets investment.

Meanwhile, wages paid out by the end of november stood at 246.5 billion yuan, up 11.5 percent over the same period last year.

In November alone, wages grew by 15.3 percent to 25.1 billion yuan, the second highest growth rate this year following a 15.9 percent rise in October.

Guangdong Tops Country in Industrial Growth Rate

*OW2412200490 Beijing XINHUA Domestic Service
in Chinese 2134 GMT 22 Dec 90*

[By reporter Fang Xin (2455 2450)]

[Text] Guangzhou, 23 Dec (XINHUA)—According to information gathered from concerned departments, Guangdong had already fulfilled this year's plan for industrial production value in early December. Total production value is expected to reach 118.6 billion yuan by the end of the year, an increase of 16.5 percent over last year, to top the country in the rate of growth.

Under the conditions of a weak market and sliding production, governments at all levels in Guangdong took positive measures to organize banking, finance, tax, commerce, and economic and trading departments to support enterprises in production. As a result, industrial production began to gradually pick up in February. All the province's 19 cities and prefectures are expected to realize production increases this year. Of the 15 departments and bureaus, 13 had production increases. Among them, the first light industry, second light industry, electronics, and pharmaceutical industry all registered increases of over 25 percent in November.

Guangdong has obtained obvious results in energy, transportation, telecommunications, and other infrastructures. The province put into operation new power generating sets with a generating capacity of 1.15 million

kilowatts, of which 675,000 kilowatts were directly invested by the province. The province's total power generating capacity will have reached 8.1 million kilowatts by the end of this year. During the Seventh Five-Year Plan, the newly installed generation capacity exceeded the target by 1.3 million kilowatts. Apart from these, Guangdong has also put into operation roads, bridges, railways, and coastal and inland harbors and piers this year. Some 1.75 million sets of telephone and 20,000 long distance telephone lines will be installed in urban and rural areas by the end of the year.

Guangdong's industries and enterprises place great importance on product quality and the development of new products. Statistics show that the quality of main industrial products has steadily improved by 85 percent, with electronic products improving by 91 percent. The ratio of readily salable industrial products has also increased from 25 percent at the beginning of the year to 40 percent. The Increase in capital for finished products is even lower than that of 1988, a year of brisk sales.

The continuous, large increase in exports of Guangdong's industrial products is an important reason for the steady increase in its industrial production. Exports of industrial products reached 33.114 billion yuan by November, constituting 31.2 percent of the total value of industrial production, an increase of 38.9 percent over the corresponding period of last year. Of the total exports, \$2.317 billion was generated from products of foreign-funded enterprises, an increase of 64 percent.

Shanghai Completes 1990 Industrial Production Plan

*OW0501174791 Beijing XINHUA in English
1514 GMT 5 Jan 91*

[Text] Shanghai, January 5 (XINHUA)—Shanghai achieved a total industrial output value of 115.54 billion yuan in 1990, an increase of four percent over 1989, the municipal statistics department announced today.

Foreign-funded ventures in the city recorded an industrial output value of 6.33 billion yuan, accounting for 5.7 percent of the city's entire industrial output value.

Shanghai produced 16.66 billion yuan worth of industrial products for export in 1990. This figure was an increase of 15.8 percent over 1989 and accounted for 14.4 percent of the city's output value.

The city's industrial growth was partly attributed to projects built directly by the central government.

Shanghai Machine Tools Industry Update Ahead of Schedule

*OW2112191190 Beijing XINHUA in English
1600 GMT 21 Dec 90*

[Text] Shanghai, December 21 (XINHUA)—With 49 of 59 independent projects now completed, China's plan

for updating the machine tools industry is expected to be accomplished by the end of 1991—a year ahead of schedule.

The large-scale plan aided with a loan of 100 million U.S. dollars from the World Bank began to be carried out here two years ago in this, China's biggest industrial city.

With the loans and another 350 million yuan raised domestically, the city has updated its machine tools products to the 1980s' world advanced level through importing foreign technologies and key equipment while employing its own technical forces in research of high and new technologies.

Technological development has greatly activated the machine tools industry here. Earning over 5,300,000 U.S. dollars through exports so far this year, the Shanghai Machine Tools Plant has already hit the 1993 target set by the World Bank's loans feasibility report.

Building Materials Industry Continues To Grow

*OW0701080691 Beijing XINHUA in English
0727 GMT 7 Jan 90*

[Text] Beijing, January 7 (XINHUA)—China's building materials industry has invested over 13.1 billion yuan to introduce advanced technology and upgrade production over the past five years.

The Overseas Edition of the PEOPLE'S DAILY reported today that the country's building materials industry has been greatly enhanced, and that a three-star hotel can now be built without the need for any imported materials.

Over 95 percent of the building materials used in construction of the top-grade facilities for the 11th Asian Games, which was held in Beijing last year, were produced by Chinese factories.

China has maintained its position as the world's largest producer of cement for the past five years. In 1989, the country also became the world's number one producer of plate glass.

The country's products, including thermal insulation, float glass, toilet porcelain ware, inorganic nonmetal materials and cement, have reached high standards, and have recorded steady growth in exports.

The paper reports that the building materials industry expects final figures for 1990 exports of building materials to exceed 1.2 billion U.S. dollars.

Joint ventures and other types of foreign funded companies have taken the lead in entering the world market, according to the paper.

CONSTRUCTION

Housing 'Important Commodity'

*OW1912081990 Beijing XINHUA in English
0727 GMT 19 Dec 90*

[Text] Jinan, December 19 (XINHUA)—In some parts of China, housing has become an increasingly important commodity for Chinese residents who have lived in low rent government assigned apartments for the past 40 years.

Gao Guangxuan, a mathematics lecturer at the Yantai Education College in Shandong Province, east China, purchased a 68 square meter apartment at a recent housing fair. Gao borrowed over 45,000 yuan (9,000 U.S. dollars) from six relatives in order to make the purchase.

Gao said that although the apartment was very expensive for him, it was his first need compared to other consumer goods. Gao was married recently and he and his bride had to spend their honeymoon in a borrowed room.

The goal of the housing reform, which was initiated in February 1988, was to relieve the government's burden in the area of home construction by pooling construction funds through raising rents and commercializing housing, a government official said.

Yantai was among the pilot cities which initiated the housing reform. The experience gained by the city in housing construction, distribution, and in exchanges and sales has since been promoted in over 200 cities, counties and towns in China.

Statistics from 1986 revealed that the per household expenditure on food was 48 percent of the total income in Yantai City, while the rental costs for housing were only 1.4 percent. The percentage rental costs for housing represent only about one-fourth of what an ordinary household spends on cigarettes, wine and tea.

This obviously lopsided structure of housing costs is due to China's non-commercialized housing system, and has also led to a housing shortage in most Chinese cities.

The Chinese residents have viewed the housing reform with mixed emotions. On the one hand, the large number of urban residents, who are in bad need of improved living space, welcome the reform. While on the other hand, those who are not worried about their housing think differently.

Tan Yeqing, the head of the Yantai Office of Housing Reform, said that increasing numbers of residents now regard buying a house as the "first need" in their life.

Yantai has sold over 2,000 apartments, both old and new, or houses, with floor space of over 120,000 square meters, to local people in the past three years.

The floor space in privately owned houses has increased from 190,000 square meters in 1986 to 302,000 square meters last year.

A survey of over 1,600 house buyers revealed that over 70 percent were workers, who planned to get married, or were households with a medium annual income of 3,000-3,500 yuan.

Yantai plans to sell new apartments with a floor space of over 1.2 million square meters to local enterprises and institutions each year. The apartments will then be resold at preferential prices or rented at a new and higher rate to the employees of the enterprises and institutions.

The per square meter rent rate in Yantai is now 1.28 yuan, or nearly ten times higher.

Over 200 cities, counties and towns are now selling public housing with varying price structures, or at a preferential or subsidized price in order to meet the needs of Chinese citizens.

China's housing reform program moved forward at a moderate pace in recent years. To date, 28 of China's provinces, municipalities and autonomous regions have embarked on pilot programs to advance housing reform.

The different areas have initiated various measures including rent adjustments; sale of public housing at subsidized prices; establishment of new rents and prices for new urban housing; funding construction of collective housing by individuals, work units as well as the state; co-operative housing; special bank deposits for housing; encouragement of private home construction; and the sale of commercial housing to individuals with high incomes.

Inner Mongolia's Housing Construction Reported

SK2612063890 Hohhot Inner Mongolia Regional Service in Mandarin 1100 GMT 24 Dec 90

[Summary] During the Seventh Five-Year Plan period, our region's total investment in urban residential housing construction came to 3.6 billion yuan, an increase of 44 percent over the Sixth Five-Year Plan period, and approximately 16.45 million square meters of housing were completed. In the period, the regional government's investment in housing construction totaled 2.4 billion yuan, amounting to 10.4 percent of the investment made by state units in fixed assets in the same period. Among the houses built in the period, approximately 1.01 million square meters were commercial houses in urban areas. In the first four years of the Seventh Five-Year Plan period, 529,000 square meters of commercial houses were sold.

Beijing Pilot Housing Reform Projects See Progress

OW0501112591 Beijing XINHUA in English 1036 GMT 5 Jan 90

[Text] Beijing, January 5 (XINHUA)—Beijing has brought houses with a total floor space of 10 million square meters into line with the housing reform program in 1990, according to today's BEIJING DAILY.

The paper reported that more than 90 million yuan was recovered from individuals, including 52 million yuan from house buyers, 23 million yuan from individually-raised funds with the help of the government and enterprises, 10.4 million yuan from earnest money leases, and 3.1 million yuan from rent increases.

So far, Beijing's housing reform has been carried out in 10 suburban counties. The reform measures included: having work units sell old and new apartments to working staff at standard prices; having the city house exchange sell commercial housing to city residents at market prices; having individuals, work units and the state set up housing co-operatives; the creation of new rent pricing levels for new houses; and the creation of long-term individual special bank deposits designed for housing.

In another development, over 1,400 households have moved into the new apartments in the Fangzhuang Residential Area in the southeastern part of Beijing.

Fangzhuang is the largest residential area in the capital. In the past four and half years, nearly 1.9 million square meters of floor space has been constructed, of which 900,000 square meters have been put into use.

Construction has also been completed on more than 20 essential facilities in the area, including primary and middle schools, nurseries, grain shops and vegetable markets.

FOREIGN TRADE, INVESTMENT

Foreign Exchange Retention System; Problems, Solutions

91CE0103A Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 9, 30 Sep 90 pp 45-47

[Article by Chen Zhihong (7115 1807 1347): "Problems of Existing Foreign Exchange Retention System and Reform Ideas"]

[Text] I. The Evolution of China's Foreign Exchange Retention System and its Substance

1) The evolution of China's foreign exchange retention system. China's foreign exchange retention system emerged and developed over time as the country opened up to the outside world and carried out all-round economic structural reform. In August 1979 the State

Council formulated and promulgated the "Foreign Exchange Retention Trial Regulations for Export Commodities," which put foreign exchange under central management and balancing and made a distinction between trade foreign exchange and nontrade foreign exchange. In March 1982, the State Council approved and issued the "Report on Amending the Foreign Exchange Retention Trial Regulations for Export Commodities." Formerly, foreign exchange retained for export procurement above the base figure was calculated proportionally. Under the new regulations, it was to be calculated in accordance with the total foreign exchange earnings from exports. The new regulations stressed the fact that only the unit that exported would be allowed to keep its share of foreign exchange, making foreign exchange retention fairer. In December 1985, in response to "economic overheating," the sharp rise in exports, and the rapid depletion of foreign exchange reserves, the State Council decided to impose strict command planning on the use of retained foreign exchange, complete with quota management. In early 1988, to meet the need of the emergence of contract management across the board in foreign trade, the government extensively revised the specific details of the foreign exchange retention system, finally giving rise to the present foreign exchange retention system.

2) The major ingredients of the current foreign exchange retention system. One, quota retention. This is how it works. Every unit turns over its foreign exchange earnings to the state in full. The state will then give the unit the right to use a percentage of the foreign exchange quota determined in accordance with regulations. Two, the targets of retention. They can be found on two levels. On the first level are the central government and local authorities. On the second level are the provincial, prefectural, and county governments, pertinent departments and bureaus on the provincial level, and export production enterprises. Three, retention ratios. Fourth, the allocation of retained foreign exchange. To begin with, foreign exchange import and export companies compile foreign exchange retention distribution lists on a monthly basis in accordance with such raw data as export foreign exchange earnings and commodity procurement accounts. The lists are then submitted to the foreign economic relations and trade commission and foreign exchange control bureau for their examination and approval before being allocated to all units concerned by the foreign exchange control bureau. Fifth, retained foreign exchange derived from trade must be used strictly within the area defined by the State Council. Essentially it should be used to pay for raw materials, capital goods, and new technology necessary for production expansion and technological transformation in industry and agriculture and to support the production of export commodities. Nontrade retained foreign exchange should be used mainly on the construction and development of the item from which the foreign exchange is derived so that more can be exported to earn more foreign exchange.

II. Problems With the Current Foreign Exchange Retention System

The foreign exchange retention system has put an end to the longstanding highly centralized foreign exchange management system with its monopoly on revenues and expenses. It also accommodates the interests of all three parties—the state, the locality, and the enterprise. The foreign exchange retention system is a major piece of reform in the foreign exchange management system and is compatible with China's national circumstances and the development of foreign trade. However, the present foreign exchange retention system is still inherently flawed in a number of ways. Moreover, it becomes distorted in the course of implementation. As a result, the system has not lived up to its full potential as a catalyst of national economic growth and foreign trade development. While its positive effects have not been fully realized, its negative results have been felt.

1) The form of retained foreign exchange management. What we have in China today is quota retention. Clearly, this system has its pluses. For instance, the control of foreign exchange is in the hands of the state, which enhances China's international economic stature and enables it to deal with any sudden emergency. Furthermore, by separating foreign exchange from renminbi, it facilitates the renminbi cash flow of enterprises. But it cannot be denied that quota retention has its fatal weaknesses. First, it encourages duplicated use of the same amount of foreign exchange by the central government and local authorities. The result is like a woman being married to two men. Second, since the foreign exchange quota is a mere target with no major actual value, many enterprises pay it scant attention. Consequently, the use and benefits of retained foreign exchange cannot be fully realized. Third, quota retention objectively spawns a market for the conversion and use of foreign currency that is outside state control. This encourages the separation between foreign exchange and foreign fund management and disrupts the domestic market, unfavorably affecting commodity circulation, the distribution of money and credit, and price levels.

2) Scope and proportions of retention. First of all, there are too many participants in the distribution of retained foreign exchange. Besides the central government, local governments at all levels, and export production enterprises, provincial-level departments and bureaus involved also take part in the distribution, as do foreign trade companies at all levels covertly. Second, the distribution of retained foreign exchange resembles the "fairly scattering flowers." The spread is too wide and the amount is quite small, which militates against the centralized management and utilization of foreign exchange and makes it difficult for enterprises to use it to finance imports that will help them earn more foreign exchange. Third, there are no uniform standards for retention. The percentage of retention is lower in inland provinces than in coastal area and much lower than in special economic zones. As a result, it has become a common phenomenon for coastal areas to procure commodities for export in

the interior at high prices, which does nothing to promote fair competition among foreign trade companies in the various areas. Fourth, after the contract management system was introduced, the practice of distributing foreign exchange retained within the export base figure in accordance with a ratio has ceased to exist except in name.

3) Retention and distribution of foreign exchange. a) There are no standards when it comes to calculating the amount of foreign exchange retained. In some cases, they may vary considerably. It is not uncommon to find cases where "export enterprises were allocated little or no retained foreign exchange while non-export enterprises were allocated foreign exchange." While there are certainly objective reasons for this, we cannot rule out negligence and dishonesty on the part of foreign trade departments. b) Ineffective supervision. Formally, the retained foreign exchange distribution plan must be examined by the foreign exchange control bureau. In reality, because there is no coordination between the foreign exchange control bureau and foreign trade procurement and export, supervision by the former of foreign exchange retention and distribution has become a mere formality. Its role has been reduced to that of nothing more than a cashier. c) Allocation is too slow and takes too long. From delivering commodities to securing retained foreign exchange, enterprises often have to wait anywhere from six to 12 months or even longer, which erodes enterprise profitability.

4) The use and management of retained foreign exchange. Enterprises have no guarantee that they have the power to use their own retained foreign exchange, which severely dampens their production enthusiasm. These are the major restrictions. First, there are strict controls by the state on the use of retained foreign exchange, in terms of both scope and direction. The usual foreign-exchange-earning enterprise is not really free to choose how it is to be spent. Second, there are complicated formalities involved in the use of retained foreign exchange. A long period of time often separates application and actual use. This means missed opportunities on the international market and delayed cash flow for the enterprise. Third, governments at all levels often take administrative measures to level retained foreign exchange between one enterprise and the next. In particular, they routinely procure in one short the portion above the base figure at low prices. Fourth, it is common for those who earn foreign exchange not to use foreign exchange and those who do not earn foreign exchange to use foreign exchange.

5) The foreign exchange regulation market, which should work in tandem with the foreign exchange retention system. Constrained by the policies of the government to restrict imports and tighten the money supply as well as its own inherent weaknesses, the foreign exchange regulation market has been sluggish since the second half of last year. With supply exceeding demand, it is a buyer's market. Many enterprises have trouble selling off their retained foreign exchange. Since the depreciation of the

renminbi late last year, in particular, the actual value of retention quotas has dropped significantly (50 percent from the peak trading value, in most cases). There has been a chorus of complaints among enterprises.

Already the array of problems mentioned above has produced two notable consequences. One, more and more export production enterprises have run out of retained foreign exchange and the situation is getting out of hand. Because the availability of retained foreign exchange is uncertain, it is inconvenient to use, it is difficult to regulate shortages and surpluses and safeguard legitimate interests, many enterprises have lost interest and confidence in the foreign exchange retention policy. Instead, they take into account the factor of foreign exchange retention when they calculate account settlement prices and negotiate commodity prices with foreign trade companies. By converting the money into renminbi, they avoid a long delay fraught with many hitches. In effect, this means that the enterprise, the principal player in the foreign exchange retention system, has withdrawn and disappeared from the foreign exchange retention system, contrary to its original intent. Second, the apparent increase in foreign exchange reserves has put the state in a dilemma. Local retained foreign exchange is an important part of national foreign exchange reserves. If the retained foreign exchange surplus increases by such and such an amount, so should the foreign exchange reserves of the state. Since the use rate of local retained foreign exchange is relatively low, the surplus has been accumulating year after year. This suggests that although China's foreign exchange reserves now run into billions of dollars, the amount that is actually at the centralized disposal of the state is rather limited.

III. Ideas About Reforming the Current Foreign Exchange Retention System

Many colleagues have expressed different opinions and suggestions on the reform of China's foreign exchange retention system. Some propose abolishing the system and reintroducing a highly centralized system under which revenues and expenses would be monopolized. Some suggest replacing quota retention with retention of spot foreign exchange. Yet others argue that we should continue the existing foreign exchange retention system but make whatever changes necessary. Here this writer puts forward a number of highly preliminary ideas in the hope that my colleagues would criticize and correct them.

1) Turn the quota retention system into a foreign exchange transfer certificate system, with these major features. a) Units and individuals shall turn over their retained foreign exchange to a designated bank and in return be given foreign exchange transfer certificates of an equivalent value. b) When they are authorized to use foreign exchange, they should apply for spot foreign exchange from the designated bank by producing foreign exchange transfer certificates and other appropriate documents and pay foreign bills in foreign exchange. c)

Foreign exchange transfer certificates shall be negotiable certificates. No interest is paid on them, but certificate-holders can partake of market regulation and apply for secured loans from a designated bank. d) Foreign exchange transfer certificates shall be valid for a set period of time, usually two years, after which they shall be sold to a designated bank and become state property. e) A designated bank must issue or recall foreign exchange transfer certificates in accordance with instructions by the foreign exchange control bureau. It must deposit in the central bank its foreign exchange incomes or withdraw from the bank its foreign exchange expenses the same day. It is easy to see that under a foreign exchange transfer certificate system, the enterprise has the authority both to use and own retained foreign exchange. This system will make the enterprise more capital-minded, improve the effectiveness with which it uses funds, and mobilizes its production initiative, at the same time avoiding duplicated use.

2) Adjust the scope of foreign exchange retention and reduce the levels of distribution. a) Stipulate clearly that provincial-level departments and bureaus concerned as well as foreign trade departments (except for a handful of industrial companies operating on a trial basis) shall not take part in foreign exchange distribution, their original shares to be returned to the government. b) Establish a starting level (\$2,000 to \$5,000). When the retained foreign exchange of an enterprise falls below that level, it shall be put on the foreign exchange market in full, with the market giving the enterprise appropriate subsidies. c) Allow enterprises to sell off their retained foreign exchange to foreign trade companies earlier than scheduled, although this must be stated clearly in the purchase and sale contract, which should also lay down the percentage that must participate in regulation. d) The retained foreign exchange of local governments should normally be in the hands of foreign-exchange-earning units within half a year to be traded for foreign exchange transfer certificates promptly. Enterprises above the starting level shall hand in an appropriate amount of renminbi at a designated bank in return for foreign exchange transfer certificates within a month after receiving retention notice issued by the foreign exchange management agency. These regulations would expedite the concentration of foreign exchange funds and ensure that foreign exchange would be spent on what is important as well as creating conditions for the operations of the foreign trade department and consolidating the foreign exchange regulation market.

3) Reform foreign exchange retention procedures. Pay the government first and distribute the foreign exchange later. Calculate the base figure for export foreign exchange earnings in local contracting and foreign exchange to be turned over to the state on a quarterly or monthly basis. Foreign exchange earnings below the base figure would not be distributed. If they fall between the base figures for submission to the higher authorities and the foreign exchange earnings base figure, they would be retained in accordance with percentages worked out

based on the foreign-exchange earning costs of different commodities as long as the share retained by the enterprise is not smaller than 50 percent of the amount retained. The other half shall be distributed among governments at these three levels—provincial, prefectural, and county—in accordance with set ratios. The percentages retained by county and preferential governments should be raised. Whatever in excess of the base figures would be disposed of in accordance with the above principles after submitting over 20 percent to the central government.

4) Open up new foreign exchange retention and allocation channels. First, create a strict domestic purchase and sale contract system for export commodities. The foreign exchange control bureau and foreign economic relations and trade department should jointly work out a uniform format, with clear provisions on foreign exchange retention, etc. A copy of the purchase and sale contract shall be sent to the foreign exchange control bureau. The foreign trade department shall send a copy of the report on the implementation of the plan to the local foreign exchange control bureau expeditiously. Foreign exchange control bureau must inspect and verify regularly. Second, at present the foreign trade company prepares the retention plan while the foreign exchange control bureau reviews and issues it. This one-track system should be replaced by a two-track system under which the foreign exchange control bureau and foreign trade company each prepare their own retention plan separately. Their plans will then be reconciled with one another before being issued by the foreign exchange control bureau. That way the supervisory role of the foreign exchange control bureau will be strengthened. Third, improve service quality and efficiency and speed up the allocation of foreign exchange retained.

5) There should be a policy to encourage enterprises to use retained foreign exchange. The policy should do the following: a) The enterprise must use its own retained foreign exchange under the supervision of the foreign exchange control bureau, banks, customs, and other relevant agencies as necessary as long as the uses are in line with national policy. b) Simplify foreign-exchange using formalities and reduce the barriers to using foreign exchange, thereby accelerating the allocation and use of foreign exchange and increasing the effectiveness of the use of foreign exchange. c) Establish a foreign exchange market balancing fund, further improve the foreign regulatory market, enhance its ability to regulate, and make foreign exchange regulation more open. Give foreign-exchange-earning enterprises more choice as far as methods of regulation and prices are concerned. Moreover, give preferential treatment to all foreign exchange earning enterprises when they apply to use foreign exchange to pay for technology and import raw and supplementary materials in short supply. Only this way can we truly unleash the production enthusiasm of the large numbers of enterprises and achieve the goal of encouraging exports and earning more foreign exchange.

Exploring Joint Venture Transition To Limited Liability Companies

91CE0107A Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 9, 30 Sep 90 pp 25-30

[Article by Fan Jianwei (5400 1696 0251) of the CPC Shanghai Municipal Committee's Research Department: "Exploring the Conversion of Joint Ventures Into Limited Liability Companies"]

[Text] By the United Nation's Industrial Development Organization's classification, there are two types of Sino-foreign joint ventures in China: One is contractual joint venture. In this type of partnership, the foreign participants contribute capital (regardless of the capitalization ratio,) and enterprises utilize existing Chinese factors of productions and so on. One side is primarily in charge, and the partners split the profit in percentages stipulated by contract or other negotiated agreements. The other is equity joint venture, that is, equity shares are based on the amount of capital each participant contributes, and the capitalization ratios are duly registered. The two sides set up a board of directors which appoints their respective managers. These are limited liability joint ventures where the participants share the profit and the risks proportional to their respective equity shares. This type of joint venture, which limits liabilities, is one way for developing countries to attract foreign investment directly during the period of economic development. At the end of 1988, there were more than 4,800 joint ventures in China; they accounted for more than 40 percent of all foreign-invested enterprises. Facts prove that joint ventures play a positive role in attracting foreign capital, bringing in advanced technology and management experience, and developing international markets. But in the wake of the continuing development of these joint ventures, the limitations of this type of limited liability cooperation are gradually being exposed. Thus, turning some joint ventures into limited liability companies in a timely fashion should be put on the agenda.

Problems Facing Sino-foreign Joint Ventures and the Significance of the Conversion

The first problem: There is a conflict between expanding the scale of production and the shortage of funds. At present, most joint ventures are well-managed, but when they try to expand production, they often have trouble raising the necessary funds: First, interest on long-term loans in China is as high as 20 percent, plus we are in a tight money period, and therefore the joint ventures are unable to raise long-term construction funds through the domestic financial institutions. Second, due to outside factors, investors are unwilling to add new capital, which makes it very difficult to expand the newly-opened markets. If enterprises try to issue bonds to raise money, it will only add to their debt burden and lower their assets-income ratio. If the joint ventures are converted to limited liability companies, they can circumvent the

problem of having to come up with the funds themselves; instead, they can raise money in the long-term capital market. This can ease the joint ventures' fund shortage problem, and we can readjust the product-mix and industrial structure by sending signals through the market, and enterprises will be able to expand productive capacity quickly and in turn increase society's effective supply.

The second problem: There is a conflict between "co-management" and the presence of multiple parent companies. Looking at the development of the joint ventures, initially, most such cooperations are under co-management or multi-party management. Today, most joint ventures have fostered a sense of mutual trust, mutual respect, and cooperation internally, and they have been very successful. But in the long-run, this kind of "co-management" needs to be changed. This is due to the fact that under China's existing system, there are essentially no property rights for the Chinese side. Many Chinese managers are indifferent to the management standards in these joint ventures. More importantly, because most joint ventures have more than two parent companies that contributed capital, separate ownership of property rights has led to differences in interests and directions, and the breaking up of management rights also lowers management efficiency. If the joint ventures are converted to limited liability companies, in accordance with international practices, they become completely independent legal entities. The shareholders as a whole control the companies, and if a company offers its stocks in the market, the management must make public its operating performance. This not only adds to the responsibilities of the board of directors and the management but also turns the many parent companies of the former joint ventures into shareholders in the strictest sense. They become owners of the company's assets but cannot participate directly in its management. As these joint-stock companies develop, they can continue to raise funds, issue stocks, and attract new shareholders, and in turn, they can dilute the parent companies' equity holding, and if necessary, they can hire nonshareholder managers to ease the conflicts resulting from pluralistic internal management and gradually merge the different forms of management into an organic whole.

The third problem: There is a conflict between the joint ventures' long-term development and their development during the term of the contract. Today, most joint ventures have recovered from the agony of "birth" and have entered a growing, maturing phase. But the current cooperation term will expire in four to five years. Of course, the "Joint Venture Law" stipulates that if both sides are willing, a contract can be renewed upon expiration, but even the renewed term will expire someday. To the foreign investors, there is no ultimate property rights proportional to the amount of total enterprise assets. The foreign participants of the more profitable joint ventures are therefore disinclined to make long-term investments. This is also the main reason why most foreign investors are willing to make only one-time,

tentative investments and are not willing to make long-term strategic investments. So far as the Chinese side is concerned, when it comes time to dissolve the joint venture and settle the accounts, the usual practice is to let the foreign participants recover their foreign exchange capital according to the original capitalization ratio first, and the Chinese side collects whatever is left. In particular, when settling the accounts, not only is the original capital outlay reconverted at the book exchange rate but all remaining assets, including the appreciated value of the capital, are so converted. This greatly increases the risks associated with the exchange rate. If some joint ventures are converted to limited liability companies, the investors' eventual property rights in the assets will be defined by law, and the foreign participants will then do their best to manage the enterprises properly in order to maximize profit, and this will benefit the Chinese side too. From another perspective, limited liability companies are neither limited-term companies nor will there be a problem one partner pulling out his shares, and therefore situations such as dissolution and settlement are nonexistent. This not only avoids the unnecessary exchange rate risks the Chinese side may incur during settlement but also avoids the pressure of huge foreign debts when the foreign investors retrieve their capital.

The fourth problem: There is a conflict between equity-share enterprises and joint-stock enterprises. Today, most foreign participants in the joint ventures are joint-stock companies. They have large capital and good credit rating. Most joint ventures, on the other hand, are equity share, limited liability ventures. No matter how well they are managed, they offer no stock and their credit standing cannot be improved regardless. After several years' practice, we have discovered that some foreign businessmen have taken advantage of the fact that the joint ventures have limited liabilities but cannot issue or trade stocks openly in the market to set up corporations and transfer the profit they earn from the joint ventures to the corporations they control and issue stocks to recover their initial investments. I think this practice is an indirect transfer of the equity shares of the joint ventures and undermines the Chinese side's legal rights and privileges. This also cautions us not to underestimate the practical significance of turning some qualified joint ventures into limited liability companies.

Obviously, it is practical and important, for the sake of perfecting the organizational structure of Sino-foreign joint ventures, promoting their development, and attracting more foreign capital, for us to legally recognize limited liability company as a form of Sino-foreign joint venture and, according to the direction of China's readjustment of the industrial structure, convert some joint ventures—those with good market prospects and are economically efficient and have foreign exchange surpluses—into limited liability companies, and take proper steps to issue stocks in the domestic and foreign markets.

Allocation of the Equity Shares During the Conversion of the Sino-foreign Joint Ventures

Allocation of equity shares means converting all of a joint venture's capital into shares of equal value and distribute them to the shareholders according to what they own. The way foreign corporations usually do this is to convert the original capital into common stock and the newly-added capital into preferred stock. When we convert the joint ventures to limited liability companies, we can do the same thing.

A. The Mix of Equity Shares

1. The share equity of the common stock should equal to the amount of capital the joint venture has on hand: Today, some comrades feel that the conversion of capital into shares should be based on the ratio of each participant's original contribution to the registered capital. We, however, feel that it should be based on the amount of capital on hand. Capital on hand is the registered capital plus the incremental capital added during production and operation. In other words, it is the total amount of actual investment. This is because after several years' development, the joint ventures must have added some operating capital, which may be in the form of cash, in-kind investment (machinery, equipment, and raw materials,) industrial property rights (patents, exclusively-owned technologies, and trademarks), or rights to use certain sites and facilities. Many joint ventures have also utilized Chinese technologies and facilities and have expanded site-use during production. These incremental capital should be given full consideration when re-assessing the equity ratios. We should not simply base everything on the percentages of the original registered capital (or contributed capital).

2. The share equity of the preferred stock should equal the company's planned total incremental capital: how many shares of preferred stock a corporation issues will have a significant impact on the common stock. This impact is often termed "lever effect." Because preferred stocks have priority in dividend payment and the dividends are paid at a fixed rate, when profit is falling, the "lever effect" will cause the income of the common stock to fall faster if preferred stocks are issued than if they are not. Of course, if profit is rising, the "lever effect" will increase the income of common stock even more. Thus, the number of preferred stock proportional to the number of common stock must be carefully assessed before issuing. The general rules are: (a) capital stock preferred should be kept to below 30 percent of capital stock common; (b) the number of shares of preferred stock may be determined by the capitalization need of each new project; (c) the preferred stock percentage may be determined by the demand for stocks in the stock market.

3. The ratio between RMB [renminbi] shares and foreign currency shares: Joint ventures are set up with Chinese and foreign investments. In order to attract more foreign capital, at the time they are converted to limited liability companies, it is necessary to issue some RMB shares and

some foreign currency shares. With regard to common stock, the number of RMB shares and foreign currency shares may be based on the proportion of Chinese and foreign contributions to the amount of capital on hand. However, for some joint ventures, the original foreign capital has previously been converted into RMB and Chinese capital into foreign currency. In such cases, the investments should be reconverted at the book exchange rate at the time of capital contribution before determining the number of shares to give expression to the principle that both sides should share the profits and losses and assume the same amount of risks.

With respect to preferred stock, there are three ways to determine the proportion of RMB shares and foreign currency shares: (a) Enlarge by making supplements that are proportional to investors' capital (common stock) equity; (b) determine the ratio according to the demand for enterprise stocks in the domestic and foreign stock markets; (c) determine the ratio according to the proportion of Chinese and foreign capital in a new project. These ratios may vary for different trades, different enterprises, and at different times during production and operation and are subject to negotiations and change. At present, China's "Joint Venture Law" only sets a lower limit to the foreign participants' investment, that is, minimal investment cannot fall below 25 percent, but the law does not say explicitly whether the upper limit may exceed 50 percent, and in practice, most participations have been below 49 percent. Compared to other developing countries and regions in the world, China's practice appears inflexible. Thailand, Indonesia, and Malaysia have regulations that allow the foreign participants to have more than 50 percent share in all high-risk, capital-intensive, or technology-intensive enterprises, in commercial enterprises in remote areas, and in joint ventures that produce goods mostly for foreign sales. In the wake of economic development, the host country can use various means to readjust the investment ratio in some joint ventures: one, each side can add capital after negotiating a new ratio; two, the equity share percentages can be readjusted by adding new capital and shares. In recent years, when they draw up foreign investment laws, more and more developing countries are adopting the "fade-out formula" as in the "Andes Joint Law on Foreign Capital" and are requiring or pre-arranging a proportional reduction in the share of foreign capital each year, and after a specific number of years, the host country will control the bulk of the equity shares. This process is generally known as "localization." Thus, it is clear that turning some joint ventures into limited liability companies not only will help attract more foreign capital but will also make the Chinese to foreign capitalization ratio more flexible, which will facilitate the optimization of the equity structure of the joint ventures and gradually turn some economic efficient joint ventures into "wholly Chinese" enterprises. This is in keeping with the basic spirit of China's policy toward foreign capital.

B. Determination of the Par Value and Distribution of Dividends

As mentioned earlier, when the joint ventures are turned into limited liability companies, if both RMB shares and foreign currency shares are issued, a change in the exchange rate will cause the value of these two stocks to be different, which in turn will affect the issuance and trading of these stocks in the market. The issuance of stocks with foreign currency par value is restricted by the "Regulation of the CPC on Foreign Exchange Control" which prohibits institutions within Chinese border to issue negotiable securities with foreign exchange value. If we only issue RMB par value stock, because foreigners cannot hold RMB, they cannot buy the stock, and in turn we will not get any foreign capital. Thus we should consider issuing stock that has no par value (that is, the value of the stock is based on a fixed percentage of the value of the company's assets, and the stock itself has no face value; its value varies with the company's net worth), and these stocks can be offered to the public and to institutional investors at home and abroad, and ownerships will be registered.

When the joint ventures are converted to limited liability companies, the common stock will be distributed to the investors according to the equity share percentages. In principle, the shares will not be listed in the market, and dividends will vary from year to year depending on the company's profit situation. Dividends may be reinvested or distributed according to the relevant provisions. The preferred stocks pay dividends at predetermined rates which are fixed. When setting the dividend rates, we must consider the shareholders' immediate gains, the corporation's profit, and the workers' benefits and also take into account the interest rate, exchange rate, and the stock market situation. We can reference the following two methods: One, we can issue cumulative preferred stocks. The advantage of this is, if for some unexpected reasons the conversion of a joint venture should render the company unable to pay dividends, they can be accumulated and paid later, but before common stock dividends are paid, when business recovers. Two, we can issue adjustable-rate preferred stocks. In most foreign countries, because the price of negotiable securities and bank interest rates tend to fluctuate, and in order to make conditions more stable for the investors, they have issued preferred stock with variable dividend rates which change with the market price of the securities and with the interest rates. Dividend of this kind is not linked to the company's performance, and to enterprises, there are advantages as well as drawbacks that must be carefully balanced. Some preferred stocks issued in foreign countries even carry a buy-back clause. When the interest rate in the financial market drops, enterprises can buy back preferred stocks already issued at the market price plus an appropriate margin, and they can re-issue stocks that pay a lower rate of dividends and thus save on dividend expenditure. After the joint ventures are converted, they can follow some of these practices.

C. Listing and Trading Stocks

After the joint ventures are turned into limited liability companies, the preferred stocks which have been added should be listed. Currently, it is just as difficult to list all stocks at home as to list them all abroad. If we list the stocks at home, first, the domestic market has limited capacity, and second, foreign capital will not find its way here. If we list them abroad, first, the cost of issuance will be too high, and second, it will be difficult to control the equity share percentages. A more feasible way may be to list a portion, based on different equity share percentages, in the country (region) of the foreign participants.

When offering the shares at home, besides further improving the market where RMB stocks are issued and traded, we should also set up a stock exchange for foreign-currency stocks and trade shares openly by listing prices. The market should target the general public within Chinese border who have foreign currency (Chinese citizens as well as foreigners), various mutual funds, insurance companies, and other legal entities. If we offer our stocks abroad, first, we must pick some over-the-counter markets. These markets are found outside of the organized stock exchanges and their listing requirements are not as strict as those of the stock exchanges. Many more companies are listed in the OTC markets than in the stock exchanges, and overseas investors find them very acceptable. In addition, we can also consider forming some mutual funds and use the securities they hold as backing to issue fund shares abroad to gather foreign capital. In this situation, the investors will be concerned mainly about the price of the fund shares and not directly about how much dividends the Chinese enterprises pay, and this will provide quick access to foreign capital during the early stage of conversion of the joint ventures. Of course, all these rest on the premise that we have a group of fairly standardized limited liability companies listing stocks or other types of securities in the market.

The Organizational Structure After the Conversion of the Sino-foreign Joint Ventures

Basically, the organizational structure and operational methods of joint ventures are similar to most limited liability companies we find everywhere around the world. For example, at the beginning, all joint ventures will sort out their assets, contribute capital according to the size of the equity shares, and assess the value of the machinery, facilities, land, and their industrial property rights and so on. Thus, it is not likely that there will be a problem with undefined property rights during the conversion. Furthermore, the existing joint ventures have accumulated beneficial experiences in bringing in advanced foreign management methods and setting up fairly standardized enterprise organizational systems and have fashioned their accounting system, job responsibility system, personnel and wage systems, and decision-making and management systems after customary international practices, and they should be able to adjust

fairly well to the operational mechanisms and management methods of a limited liability company after the conversion. In particular, after many years of hard work, many joint ventures have acquired solid strength and good reputation and many have produced foreign exchange surpluses. These will facilitate their transformation into limited liability companies to attract new shareholders.

Of course there are some essential differences between a limited liability company and a limited liability joint venture. In terms of organizational structure, there are the following differences:

1. Shareholders and shareholder meetings: Joint ventures are based on equity shares, and there are no shareholders and shareholder meetings. Shareholders are investors that hold shares in a limited liability company. Depending on the amount of capital they have invested, they have management rights, are entitled to dividends, and have claims to the company's assets. Shareholders have specific rights but limited responsibilities.

The shareholders are a group is the most powerful body in a limited liability company. For example, before making important decisions such as electing the company's board of directors and trustee, deciding the company's organizational structure and its behavioral norm, amending its bylaws, increasing its capital, approving a merger and so on, a shareholder meeting must be called. There are two kinds of shareholder meetings: One is regular meeting where shareholders meet to discuss and examine the company's general policies and operation. The other is special meeting to discuss major issues that must be resolved immediately. Generally, each share will entitle the owner to one vote at the meetings. The more shares one holds, the more power one has in that corporation. Currently, most foreign corporations try to spread the shares as a way to dilute the power of the shareholders.

2. The board of directors and chairman of the board: The board of directors represent the company in making management decisions. The joint ventures' board of directors are appointed by the participants, but the board of directors of a limited liability company may, but need not, be the company's shareholders, and the directors may be natural persons or may be a natural person appointed by a legal entity. The company's board of directors are elected in the shareholder meetings.

The board of directors is a standing organization that makes and carries out the corporation's decisions. Legally, it carries out the company's functions and responsibilities on behalf of the shareholders. In fact, in most countries, the board of directors is the corporation's supreme decision-making body (however, China's "Joint Venture Law" stipulates that "the board of directors is the most powerful organ in a joint venture"). The directors' duties generally include making decisions on day-to-day matters as spelled out in the company's bylaws, convening the shareholder meetings, reporting

on the company's operational performance, drawing up and revising the company's bylaws and related regulations, appointing and dismissing managers, approving new stock issuances, applying for the company's dissolution or declaring its bankruptcy, and drawing up merger agreements. The board of directors is usually made up of three or more persons, and each term is not to exceed three years, but re-election to consecutive terms is permissible. Directors who are shareholders are called inside directors and those who are not are called outside directors. Currently, most outside directors of foreign corporations are professionals with training in law, business management, accounting, engineering, or public relations. A board of directors usually consists of a chairman, a vice chairman, and standing board members.

3. The trustee and auditor: The trustee oversees the board of directors. The board of directors controls the real power behind the company; to prevent the board from abusing its power, and to make it responsible to shareholders, a specialized standing supervisory organ is formed. Most corporations have at least one trustee. He has complete authority to supervise and examine the company, and of course he cannot also be a director or a manager. His term of office basically coincides with the that of the board of directors, and re-election to consecutive terms is permissible. When the trustee performs his duties, he must abide by the law, the company bylaws, and the decisions of the shareholder meetings. If he shirks his responsibilities, he will be held liable for any damage to the company or a third party.

The auditor must be a certified accountant and a legal supervisory entity and should be relatively independent of the company he is auditing. The auditor has the power to demand to check the company's accounting records and can conduct independent audits. If a member of the company is found to have violated the law, the auditor should report the matter to the trustee. If he fails to fulfill his duties and causes damage to the company or a third party, he will be held personally liable.

4. The managers: They are in charge of the company's day-to-day operation. Their authorities include the company's day-to-day management authority and right to represent the company. This is basically the same as in a joint venture. The managers have separate responsibilities to the company and to third parties. If in performing their duties they should violate the law and cause damage to the company or a third party, they will be the first to be held responsible. This is especially true in a limited liability company. The hiring and firing of managers must be approved by a majority vote of the board of directors. The president is the company's highest-ranking officer. He is directly appointed and dismissed by the directors. If a company has a president, he will be responsible for bringing the matter of hiring other department managers before the board of directors for ratification.

The chairman of the board and the president of a corporation may be the same person or may be two different persons. Today, management practices in most

countries try to separate the two. Other corporate organizational and personnel arrangements are very similar to that of a joint venture, and we will not detail them here.

5. The shareholder meetings and the workers' congress: The workers' congress represents the basic form of democratic enterprise management in China. It is a powerful organization where the masses of workers take part in decision-making, management, and supervision of those in charge of enterprises. The labor union is the executive organ of the workers' congress. Today, most joint ventures have organized labor unions. After they are converted to limited liability companies, if entire staff of buys into a company through stock participation, the shareholder meetings can take over the workers' congress's duties. But if only some workers participate, we will need two organizations, but the two can convene their annual meetings at the same time and merge parts of the agenda. After the joint ventures are turned into limited liability companies, they can retain their existing labor unions and, according to the pertinent rules and regulations stipulated in China's enterprise labor union laws, they can launch labor union activities and protect the workers' legal rights and privileges and help enterprises fulfill their economic tasks.

6. The role of party organizations within the limited liability companies: When a joint venture is turned into a limited liability company, the installation of party organizations within the company and their work method should be the same as in the three kinds of wholly or partially foreign-owned enterprises, and they should be as active as before. Primarily, they should strengthen ideological education and discipline the company's party members, especially party cadres in leadership positions, and through the party members' exemplary vanguard role, they can influence and educate the workers and masses and help implement the party's general and specific policies.

Government's Management Role After the Conversion of Sino-foreign Joint Ventures

China's economic system combines the planned economy with market regulation. After the joint ventures are turned into limited liability companies, they will be recognized as legal entities and therefore, like any other joint-stock companies, they must accept the government's macroeconomic planning and management. Meanwhile, limited liability companies are also independent producers and managers of commodities, and under normal circumstances, the government will rely primarily on economic and legal measures to administer them, and in principle, these measures will be the same as those applicable to the three kinds of wholly and partially foreign-owned enterprises and other domestic limited liability companies. Basically:

1. Special rules and regulations will be drawn up: Primarily we will need a "Corporation Law," "Securities Law," "Securities Exchange Law," "Regulations on the Listing of Negotiable Securities," and other related rules

and regulations to constrain and standardize the conduct of these limited liability companies. Existing laws and regulations such as the "Enterprise Law," "Joint Venture Law," "Bankruptcy Law," "Bank Management Regulations," and "Foreign Exchange Management Regulations" and their corresponding tax, accounting, statistical, and industrial and commercial management systems and methods will require proper adjustments and supplement.

2. There will be more policy guidance and coordination: The pertinent government departments should start with what is practical and, in keeping with the direction of the adjustment of the industrial structure, select those joint ventures which are economically efficient, which have foreign exchange surpluses, or which urgently need to expand the production scale and turn them into limited liability companies. Meanwhile, by formulating a whole set of policies which will help the joint-stock companies grow, attract more foreign capital, and improve the investment environment, they can guide, coordinate, and help facilitate the normal operation of the Sino-foreign limited liability companies.

3. We need to improve service and supervision: Turning the joint ventures into limited liability companies is a new experiment. First, we must train specialized personnel such as accountants, market analysts, brokers, appraisers, economists, and lawyers so that we have a team of competent, as well as ethical, professionals. At the same time, we should make sure that everybody has some knowledge about finances and securities, foster investment and risk concepts, and provide enterprises with market information, economic consultation and other services so as to create a good external environment to supervise, service, and manage the limited liability companies and securities markets properly.

New Features of Fujian's Foreign Investment

91CE0097A Hong Kong LIAOWANG OVERSEAS
EDITION in Chinese No 40, 1 Oct 90 pp 12-13

[Article by Hua Minxia (5478 7044 1115): "New Features of Foreign Investment in Fujian"]

[Text] The Fujian 1990 Foreign Investment Trade Fair was held in Xiamen from 8 September to 11 September.

Over the course of the four day fair, 723 investment contracts attracting over one billion yuan worth of foreign capital were signed with visiting foreign business firms.

Even more notable is the fact that this year's Foreign Investment Trade Fair witnessed new breakthroughs in the areas of foreign investment, the ways foreign firms invest in Fujian, and the sources of foreign investment, as well as other aspects relating to foreign investment. This goes to show that Fujian's attempt to open up to the outside world is beginning to bear real fruit.

The "Also-Ran" Becomes a Frontrunner

Looking at the items attracting foreign investment that were signed at this year's fair, we see that they no longer are predominantly medium- and small-size items as was true in the past. With the scale of investment expanding, with foreign investment accounting for much greater proportions of the whole package, and with the areas that foreign firms are investing in continuing to broaden, we are gradually seeing a new array of large-, medium-, and small-size items simultaneously attracting foreign investment. Of the more than 700 investment items that were finalized in contracts at the fair, 26 of them involve total investment exceeding \$10 million (73 percent more than last year) and 26 of them involve total investment ranging from \$5 to \$10 million (also a significant increase over last year's fair). The story is even more telling for the Xiamen Special Economic Zone [SEZ]. Of the 179 foreign investment contracts the SEZ attracted, 29 of them involve more than \$5 million, with 17 of these topping \$10 million. Province-wide, in all of the foreign investment contract items that were signed, foreign firms committed themselves to putting up an average of 76.45 percent of the total contract investment amounts. Foreign commercial investment and sole management and proprietorships were the main forms of investment, accounting for 78 percent of the contract items.

At this year's fair the foreign businessmen showed great interest in investing in transportation, energy resources, developmental agriculture, raw material industries, high technology production, and other key areas of development encouraged by the state, with total investment in these areas adding up to more than \$280 million and making up 28 percent of the total foreign capital attracted. All of the large, single-item investments fell within this category. At the fair, Fujian Province concluded its first agreement with a foreign firm to cooperate in construction of a shipping pier, here the Xiangyu pier in Xiamen. The pier will be jointly built and managed by the Xiamen Hong Kong Affairs Bureau and the Huiyang Development Company, Ltd., of Hong Kong, with the initial period of cooperation set for 50 years and total investment amounting to 130 million yuan. Quanzhou City and the Hong Kong's Fengyu Development Company, Ltd., signed a deal involving comprehensive development items in Anping's tract industry. The deal calls for an initial investment of over \$29 million, and in addition to land development, the items include setting up piers, multi-use factories, telecommunications facilities, and other items of industrial infrastructure among other things, with the items of industrial infrastructure making up about 80 percent of the deal.

Without a doubt, the various new developments we have recounted above send a new message about Fujian and its ability to attract foreign investment, an ability that used to be limited mainly to foreign investment in the run-of-the-mill processing industries. For a long time Fujian was an "also-ran" when it came to attracting

foreign investment in the kinds of business we have been talking about. The new changes show that Fujian is increasingly more attractive to foreign investors and that the "also-ran" is becoming a frontrunner.

Foreign Businesses Like the Real Estate Industry

At this year's trade fair, real estate was a hot item of competition for foreign investors. Long before the fair started, foreign real estate firms launched a dazzling "war of advertisements." Day after day, foreign businesses broadcast commercials on prime-time television in Xiamen pitching their ability to build and sell buildings. And, the XIAMEN DAILY had to publish extra editions to carry all of these ads. During the trade fair, each of the real estate companies had its public relations girls strolling about the exhibition hall festooned in gay ribbons, handing out all manner of attractive advertising literature. Some foreign businesses took a wholly different approach, choosing to begin operations while the trade fair was still in progress. As a result, the crackling of firecrackers during the opening ceremony of the trade fair was punctuated by the sounds of shovels outside, breaking ground on several real estate projects funded by Taiwanese businessmen.

In the mere handful of years that foreign investment in Fujian real estate has been underway, items already total nearly 100, they have attracted \$500 million in foreign capital, and the total area completed or now under construction equals about 1.5 million square meters. An endless stream of foreign businessmen filed into the main hall of the trade fair, the Xiamen Fushan International Exhibition City, and business was discussed from morning to night each day of the fair. Two deals for developing and managing land tracts were concluded during the fair, and there were 21 parcels which would bring in reimbursement for land use, were sold, totaling 230,000 square meters in area and amounting to over 200 million yuan in sales.

Over 30 domestic and foreign real estate companies competed in bidding to buy the land use rights to six parcels of state-owned land with reimbursement for that use. When the auctioneer announced that the starting bid for the first parcel, over 3,200 square meters of useable land located in the center of the city, would be four million yuan, the bidders jumped to meet the price. The price skyrocketed at 500,000 yuan increments until it got to 12 million yuan where only Zhou Anqiao [6650 1344 2890], chairman and general manager of the Hong Kong-based Tianan China Investment Company, Ltd., would meet the call. When the gavel fell, the use rights to the parcel were sold for 3,649 yuan per square meter—a record price for Xiamen land auctions. The bidding was neck and neck on the other five parcels as well. The auction for the six parcels of land was finished in about an hour, with total sales from the bidding reaching 57 million yuan. After the auction, Mr. Zhou Anqiao said that, although real estate is a risky investment, the political situation in China is stable and an investment here is bound to be successful. In an interview with

reporters, Assistant Bureau Chief Chen Ye [7115 2814] of the State Land Bureau, making a special trip to attend the auction, indicated that the land sales went even better than expected. Sales of state-owned land where the state is reimbursed for land use rights are an experiment, and the one in Xiamen came off quite successfully with the support and participation of businessmen from Hong Kong, Macao, Taiwan, the overseas Chinese community, and foreign countries. Chen said that this is going to help China further intensify reforms in the land use system.

"Investment Fever" Extends Into the Back Country of Fujian

As we wandered around inside the sumptuous exhibition hall, we were struck by the fact that the wave of liberalization had already gone beyond the coastal regions and had surged into the hinterland of the Bamin Shan region. At this year's fair, foreign investment was also keen on Sanming, Nanping, Longyan, Ningde, and other regions and cities in the Wuyi Shan and Tailao Shan regions.

On the first day of the fair, a joint capital deal was concluded between Longyan, located in the Minxi Shan region, and the Sandexing Development Company, Ltd. of Hong Kong to operate a cement factory and produce 600,000 tons of cement each year. The deal calls for a total investment of \$63 million, \$54 million of which will be supplied by the foreign partner. This deal was the largest of the single-item investment agreements made that day. Over the course of the four days, these four regions and cities came away with 112 foreign investment contracts worth over \$120 million which will attract over \$85 million in foreign capital. Indeed, they will not return to the hinterland empty-handed.

The Ningde region, located in the Mindong Shan area, used to have a very weak economic base. Leaders of the region resolved to take advantage of liberalization and find a way to enrich the region. A delegation was sent to the inaugural Fujian Province Foreign Investment Trade Fair in September of 1987 and they scored a victory immediately, concluding an unprecedented five foreign investment contracts. Since then they have come back to each subsequent trade fair and achieved marked results. This year they hit new heights, concluding a total of 37 foreign investment contracts worth \$14.45 million in foreign investment capital.

In the past the Nanping region was something of a backwater. In recent years efforts have been made to improve the investment environment, and successive investments have put over 600 million yuan into strengthening construction of transportation, energy resources, and telecommunications facilities, much of the investment coming from abroad. Today, over 20 foreign-invested enterprises are setting up and operating in the region. And at this year's trade fair, the Nanping region concluded deals for another 23 items of foreign investment.

Unwilling to be left behind, Sanming City, located in the Bamin hinterland, has gone forth over the last few years

and set up offices in such places as Fuzhou, Xiamen, Guangzhou, Shenzhen, and Zhuhai for the purpose of collecting information and acting as "windows" to attract foreign capital. In addition, Sanming has invited Hong Kong Notables to organize an "overseas advisory group" and extend their "feelers" abroad. To date, Sanming city has already approved a total of more than 150 foreign investment items.

European and U.S. Businesses Set Foot in Fujian

Most of Fujian's foreign investment still comes from Hong Kong, Macao, Taiwan, and southeast Asia. However, the big noise at this year's trade fair came as European and U.S. businesses greatly increased their investments in Fujian. U.S. and British businesses alone concluded over ten contracts with Fujian at this year's fair worth over \$100 million in investment. The Xingguang [2502 0342] Company, Ltd. of the United States signed a joint venture deal with the Xingguang Investment Company of Fujian to operate a Xingguang paper manufacturing plant in the Mawei area of Fuzhou. Total investment in the deal is \$120 million (with the foreign partner putting up half) making this agreement the largest single-item joint venture investment deal involving a Chinese and a foreign firm at this year's fair. A British firm, Pacific Plastics Company, Ltd., committed to an investment of \$26 million. The unilateral investment item it will set up took top honors among the single-item, unilateral investments at this year's fair. These are all new developments never before seen at previous trade fairs.

New breakthroughs in both form and content were made at this year's trade fair. Four special-topic conferences were added to discuss the transfer of medium and small developmental agriculture, state-run, and/or collective enterprises, contracting and leasing, leasing tracts of land, and the Fuzhou-Xiamen-Zhangzhou freeway. Foreign businessmen showed great interest in each of the special conferences. U.S. and European businessmen in particular were not only eager to attend the conferences, but also requested detailed information and expressed strong desires to enter into cooperation. Mr Gulang [0657 3186], of the Suofulabao [4792 4395 2139 1405] Pork Products Co of France, expressed valuable opinions at the conferences and indicated that he would return to Fujian in October to enter into more substantive trade talks. Even more U.S. and European businessmen are looking to do business with China not only in the present, but also are stressing long term cooperation. Thus, although these items have yet to be concluded, their significance goes far beyond the signing of the contracts themselves.

By holding discussion meetings where foreign businessmen can participate in exploring new ways and areas of investment with their local counterparts, Fujian Province has taken a step, rich in strategic vision, toward pushing trade liberalizations to new heights of openness. This goes beyond the practice of the past where foreign businessmen would have to sit passively and accept

whatever was offered. Now, foreign businessmen can directly participate in formulating the items and can actively mastermind plans to develop Fujian Province so that a meeting of the minds may be reached and close coordination can be established in accordance with international practices.

Increased Trade With Norway Likely

Oslo AFTENPOSTEN in Norwegian 13 Dec 90 p 21

[Text] Several Norwegian businesses have signed contracts with Chinese concerns or made known their interest in participating in projects in China. In connection with the Norwegian-Chinese business negotiations concluded on 10 December in Beijing, it was said that from the Norwegian point of view it is difficult to compete for Chinese contracts if mixed credits are not reestablished to allow Norway to enter with a contributing share of 35-40 percent.

Three EB [Electrical Bureau, Inc.] companies have communicated their interest in a water power project for Tibet, where a contract could involve 100 million kroner. The building will have an exceptionally high drop, something which Norwegian technology will be able to master, says export sales chief Kjell Rognstad of EB Power Generation. We are presently in the initial round of negotiation where we are competing with a Czechoslovakian concern, among others.

Within the ship equipment sector, Nor-Marine A/S has signed a contract for the delivery of 12 cranes to a Chinese shipyard. The contract is worth a good 6 million kroner. The cranes will be build in China under license from A/S Hydralift in Kristiansand.

The Stavanger concern Scana Industries could realize the largest Norwegian sale of ship equipment to China this year, 26 million kroner, to date. Total Norwegian sales in this sector will add up to between 40 and 50 million kroner.

Four ships are presently under construction in China for Norwegian shipping firms, among them three 95,000-ton product tankships for the Anders Wilhemsens shipping firm. The first ship in the series was launched last week. Moreover, the Oslo shipping firm Winsdshipping has a 35,000 ton product tankship under construction.

Tungsten Exports Exceed Two-Thirds of World Total

*OW0201193291 Beijing XINHUA in English
1324 GMT 2 Jan 91*

[Text] Beijing, January 2 (XINHUA)—China has become the world's largest exporters of tungsten with its export volume of tungsten ore and products accounting for over two-thirds of the world total in 1989.

Statistics show that China's tungsten exports, which amounted to only several hundred tons in the early 1980's, rose dramatically to 4,000 tons in 1985-86,

doubled to 8,000 tons in 1987, and increased to some 13,000 tons annually in the past two years.

In 1989 the country's exports of tungsten ore and products were up 4.4 percent over the previous year.

Implications of International Silk Market Shifts

91P30062A

[Editorial Report] The Beijing-based, Chinese-language newspaper JINGJI CANKAO published on page 6 of its 3 November edition a report by Huang Jianmo, general manager of the China Silk Import and Export Corporation and vice president of the International Silk Association, on the Association's recent meetings in Finland. The meetings addressed developing trends in the international silk market.

Huang noted that in 1989, China produced 407 million tons of silk, replacing Japan as the world's largest producer of silk; India also overtook Japan that year to become the world's second largest silk producer. Other nations that have significantly increased their silk production include the Soviet Union, Brazil, Pakistan, Indonesia, and Nepal.

Huang observed a different trend, however, in Western Europe, where countries such as France, Italy, and Spain have shifted from silk production to the more lucrative field of silk manufacturing. He pointed out that such countries "will become increasingly dependent on the producing countries for raw materials."

Huang also observed that several developing nations have begun manufacturing finished silk products in the past few years. India is becoming recognized as a supplier of silk garments and ornaments and Thailand's silk products have gained entry into U.S., French, and Dutch markets.

Huang noted that silk's increasing popularity in recent years has led to sharply higher prices which in turn have encouraged many Asian nations to expand production. He warned that "this trend could produce a silk surplus." To counter this threat, he said, silk producing countries must coordinate efforts to prevent silk production from outpacing market demand.

Finally, Huang assessed Northern Europe's silk market as having "great development potential" despite the region's relatively small population. He pointed out that since the Northern Europeans are not involved in the silk manufacturing, printing, or dyeing industries, they only provide a market for finished silk goods. According to Huang, the key challenge for silk exporters will lie in determining which products will sell best in this market.

Plans To Import Sugar

91AF0417Z Port Louis WEEK-END in French
16 Dec 90 p 4

[Article: "Plan To Import Mauritian Sugar"]

[Text] Mr. Wang Wendong, China's deputy minister for economic and commercial relations, told the press yesterday following the conclusion of the third Sino-Mauritian mixed commission that the People's Republic of China hopes to import 48,000 tons of sugar from Mauritius.

Mr. Wendong, explaining that the Chinese Government feels strongly about the need to strengthen trade relations with friendly countries, indicated his country is concerned about the fact that so far the trade balance between China and Mauritius has been clearly unfavorable to the latter.

It was in this context that China now planned to take certain corrective steps, including the importation of Mauritian sugar. But the Chinese representative said more information needs to be exchanged to help identify other Mauritian products China could import.

"One often hears that Chinese assistance is limited. I can assure you however that our aid is given sincerely, from the heart," he added.

He also believes that despite recent changes on the international scene, the friendly relations between Mauritius and the Peoples Republic of China will continue to grow stronger.

The Chinese deputy minister also said he was impressed by the peaceful coexistence prevailing among the diverse communities on the island, as well as by the rapid development under way.

Qinghai Foreign Trade Increases Rapidly

HK2812084990 Xining Qinghai Provincial Service
in Mandarin 2300 GMT 24 Dec 90

[Text] In the Seventh Five-Year Plan period, thanks to continuing reform, our province's foreign trade structure has experienced a delegation of greater import-export-trade decisionmaking power to local authorities. As a result, our province's foreign trade has witnessed a rapid development with foreign trade volume increasing for five consecutive years and aggregate import and export volume reaching more than \$280 million, representing a 190-percent increase over the Sixth Five-Year Plan period. The favorable balance of our province's import and export trade now stands at \$194 million. This year, our province has increased export-oriented products to 11 categories and more than 110 varieties, representing an increase of more than 50 varieties over 1985, which marked the end of the Sixth Five-Year Plan period. Our province has also developed a batch of strong products, each capable of earning more than \$1 million in foreign exchange. They include: Handicrafts, real estate, ferrosilicon, Chinese caterpillar fungus, and so on. All these products have been well received on the international market.

This year, our province has developed 11 export-oriented products, each capable of earning more than \$1

million in foreign exchange. The quality of our province's export-oriented products has also been improved significantly: More than 96 percent of the products exported by our province are up to standard. Our province now exports commodities to more than 30 countries and regions. Our province's export trade structure has been further rationalized. The sources of our province's export-oriented industrial products have multiplied. The proportion of industrial products in our province's export-oriented products has risen to 55 percent.

In order to meet the growing demand of foreign trade work, our province has also set up 10 export-oriented production bases. Our province's export-oriented product purchase volume has also increased by a large margin. During the Seventh Five-Year Plan period, our province's export-oriented product purchase volume reached 1.25 billion yuan, representing a 150-percent increase over the Sixth Five-Year Plan period, thus giving a powerful impetus to our province's export trade development.

ECONOMIC ZONES

Guangzhou Economic, Technological Zone Makes Progress

91CE0147A Beijing JINGJI RIBAO in Chinese
5 Nov 90 p 1

[Article by reporter Liu Jie (0491 2638): "The Guangzhou Economic and Technological Development Zone Achieves Good Economic Results—Expecting To Earn 70 Million Yuan of Profits and Attracts Over \$52 Million of Foreign Funds This Year"]

[Text] As of the end of September, the ETDZ [Guangzhou Economic and Technological Development Zone] already fulfilled ahead of schedule its annual plans regarding total industrial output value, commodity exports, and taxes, showing an increase of 61.8, 27, and 76 percent, respectively. The exports of enterprises with three capital sources increased 69.9 percent. It is estimated that the ETDZ will make 70 million yuan of profits this year. Nineteen ninety is the year of best economic results since the founding of the Guangzhou ETDZ.

While doing a good job in capital construction, the Guangzhou ETDZ, which was founded in December 1984, promulgated a series of policies and a large number of rules and regulations concerning investment on favored terms. It also had a good grip of the central link of improving economic returns, continued to improve investment climate, and showed concern for and helped enterprises do a good job in management, develop production, and promote sales. Since last year, all enterprises in the development zone also faced such problems as insufficient circulating funds, sluggish market sales, and stockpiling of some products, resulting in a decline in economic returns. Proceeding from the reality, the ETDZ management committee promptly

raised 32 million yuan of funds to support a number of key enterprises, expanded the proportion of exports by readjusting the product mix, properly lowered factory rent, and helped enterprises improve management. As a result, enterprises have overcome difficulties, increased production, and restored efficiency. The industrial output value, actual profits, and tax payments of such Sino-foreign joint ventures as the Meite Container Company, the Baojie Company, the Meiluo Square Steel Plate Company, and the Meida Knit Cloth Company have all increased by a large margin. Some money-losing enterprises have turned deficits into profits.

High economic returns have attracted foreign investors to invest and establish enterprises in the development zone. Since the beginning of this year, the number of contracted projects has increased, and the amount of investment has expanded. From January to September, 48 contracts were approved, showing an increase of 78 percent over the corresponding period of 1989. Thirty-six of them are contracts for enterprises with three capital sources, representing an increase of 178 percent over the corresponding period of 1989. Of all investment, over \$52 million is invested by foreign businessmen—an increase of 1.8-fold over the corresponding period of 1989. The year 1990 was a record year for attracting foreign capital.

LABOR

Rural Labor Flow Problem, Solutions Explored

91CE0049A Beijing RENKOU YANKIU
[POPULATION RESEARCH] in Chinese No 5,
29 Sep 90 pp 7-13

[Article by Jie Shusen (6043 2579 2773), Agricultural Research Institute, Chinese Academy of Social Sciences; and Chen Bing (7115 0393), State Statistics Bureau: "Exploring the Crux of the Problem and Solutions to the Rural Population Flow"]

[Excerpts] In the last two years, the flow of rural labor force has produced a strikingly similar trend throughout China: After the Spring Festival, in Guangxi, Hunan, Hubei, Henan, Jiangxi, Sichuan and other provinces and districts, hordes of rural workers would leave their farms and hometowns and, following the main railroad tracks, they would flock to the cities en masse looking for work. Memories of the tidal wave of a million peasants in the early spring of 1989 was still fresh on our minds when hundreds of thousands of workers swamped Guangdong in early spring of 1990.¹ It again stirred social unrest. Granted, in the face of the government's effective intervention and the fact that there are no jobs in the cities, the tidal wave of workers has slowly subsided, it nevertheless has aroused some serious thinking.

I. Exploring the Causes

The massive rural population flow in recent years represents a population redistribution amid profound economic changes. Besides the usual causes that are rooted in the urbanization of the population, there are also the following direct causes:

One, the conflict between the population explosion and the reduction in per capita land resource.

Statistical analysis shows that China has a population of 1.1 billion, and by the 2020's, it will reach at least 1.5 billion, and if we ease up on birth control, it may even reach 1.6 or 1.7 billion. Meanwhile, China's arable land has been shrinking at a rate of seven percent (approximately 7-10 million mu) a year. Nationally, arable land per unit rural labor has dropped to 2 mu. Moreover, the distribution is very uneven. Of the 29 provinces, districts, and cities, 12 are considered overburdened with respect to the limited land resource; eight are considered marginal.² In terms of total area, these two categories account for 80 percent of the nation's total area, 59.5 percent of its arable land, and 56 percent of its grain-growing area. The swelling population is concentrating on a piece of shrinking land, creating a situation where the population is hard-pressed for resources and much of the rural labor force is potentially unemployed. Survey shows that in recent years, the average agricultural worker is employed less than 100 days out of the year and there is 40 percent hidden-unemployment in the rural labor force. This implies that there are approximately 160 million surplus rural workers in China today, and by the end of the century, the number will top 200 million. In a commodity economy, the integration of human resource with other factors of production through circulation is in fact the natural historical process that ensures the survival of the surplus rural labor force. Today and within the foreseeable future, moving around in search of work to escape unemployment will be the norm of the rural population flow. This should be the starting point of our study of the migration of the rural labor force.

Two, the conflict between township enterprises' diminishing marginal labor absorption capacity and increasing number of people seeking work.

In view of such factors as funding, structure, and organic composition, China's large and medium-sized state-run enterprises have limited capacity for the surplus rural labor force. Most in the tertiary industry are small producers and can accommodate few extra workers. As a result, township enterprises have become the natural haven for the surplus rural labor force. Someone has figured out that the ideal flow is 6 million workers a year. To accelerate the "two changes," at one time, the government even promoted a multiple-standard policy and gave township enterprises more preferential treatment in

terms of taxation and loans than the state-run enterprises. This led to the township enterprise boom a few years ago, when they indeed absorbed around 8 million rural workers a year. Even then, township enterprises have absorbed only 84 percent of the incremental rural labor force over the last 10 years; many more workers still need to be relocated. Since 1987, township enterprises have lost their impetus and have shown clear signs of slipping. The number of workers they absorb has fallen from 8 million to 6.5 million; the marginal labor absorption rate has plummeted. In 1989, the state abolished the planned loans, which further reduced township enterprises' absorption capacity by 2-3 million workers, and meanwhile a 20 percent scaling back also cut personnel by 5 million. The conflict between the township enterprises' diminishing marginal labor absorption capacity and the growing number of rural workers seeking work has intensified as many laid-off workers to join the contingent of mobile labor force.

Three, the conflict between the confusion about the function of land as a resource caused by the current contract responsibility system and the need to circulate [the use of] land.

In a commodity economy, all factors of production should be put into the market so that they can recombine properly through circulation. This applies also to land. In other words, land management rights should be allowed to circulate freely, and the fertility of land and manpower are unleashed as they circulate and recombine to increase the marginal rate of return. The formation of the mechanism that circulates land management rights is founded on the premise that land is a factor of production, but China's existing land contract system de-emphasizes the nature of land as a factor of production and emphasizes its role as the peasants' livelihood and their social security. Because they are confused and even mistaken about the function of land, many people who do not work on the land and are not responsible for its management are refusing to give up their possession rights. As a result, many farms are not being tilled while many workers who have reached working-age have no land to work on. A survey of four villages in Baicheng Prefecture's Fuyu City in Jilin Province shows that the responsibility farms carry 15-year contract term. When the responsibility system first began (in 1983,) 1,656 workers in the four villages divided all the land among themselves. Four years later, a serious problem has appeared: Some people have found permanent jobs elsewhere but have refused to transfer the land to somebody else; instead, the fields are left to extensive use. Meanwhile, 557 newcomers that make up 34 percent of the population have no land to farm, and most of these people can neither go back to school nor get work in the township enterprises; they are forced to look for work elsewhere and join the ranks of the mobile population. This situation obviously is the result of the conflict between the need to circulate the factors of production and the current contracted land management responsibility system.

Four, the contradictions of an irrational pricing system, high agricultural input, and low profit:

China has long practiced a centralized agricultural and sideline product pricing system. The price of agricultural and sideline products is much lower than their value, and the price scissors between industrial and agricultural products have continued to widen. Since 1979, the state has raised the purchase price of agricultural and sideline products once, but the price of grain, oil, cotton, and other staple agricultural products is still too low. Meanwhile, the price of agricultural means of production has been rising every year. The price of thin plastic films for farm-use has risen from 4.8 yuan a kilo in 1986 to 10-13 yuan in 1987; urea has risen to around 1 yuan a kilo. In 1987 alone, the average cost of input per mu of staple crop has increased 30 percent. Although chemical fertilizers are now under special management, prices have not come down. For example, in Henan's Anyang City, the price of urea has risen from 820 yuan a ton in 1988 to 1,118 yuan in 1989, a 6.3 percent increase; the price of furadan has risen from 4,000 yuan to 5,400 yuan a ton, a 35 percent increase. The soaring cost of producing grain and dwindling profit in agricultural work lead many peasants to reduce input and lose interest in planting grain. A survey of the effective demand for chemical fertilizers of 60 peasant households in Guangxi's Mashan County shows that they purchased 9,555 kilos of chemical fertilizers in the first six months of 1987; in the first six months of 1988, demand fell to 6,528 kilos, a 31.68 percent drop, and in the first half of 1989, they purchased 4,640 kilo, a 28.92 percent decrease compared with the same period a year ago and a 51.44 percent drop compared to the same period in 1987. In addition, a survey by the Fujian Provincial Statistics Bureau of Yongtai County's grain production situation shows that in 1984, the county had 32 large households that delivered 10,000 jin of grain; by 1987, only 1 was left. That household tilled 80 mu of land in 1987 at a total cost of 21,400 yuan; its income was only 18,700 yuan, incurring a 2,660-yuan loss. Compared to a year earlier, grain production cost was 15 percent higher in 1988. Because agricultural work and grain production generate low income and often entail losses, it is very difficult to get rich on the land. Meanwhile, profiteering through buying and reselling and working in the tertiary industry have turned out to be quite profitable. With this kind of profit structure, the able-bodied are leaving the land en masse to join the army of mobile workers.

Five, the state's temporary but sharp reduction in agricultural investment and the rural areas' short-sighted behaviors diminish the peasants' sense of security in development.

Guided by its output-value norm, China has long established an investment system which emphasizes industry at agriculture's expense. Percentage-wise, the state's investment in agriculture is very low. This clearly violates the universal law of economic development worldwide. Based on the early and mid-term experiences in the industrialization process of 32 countries with per capita

GNP between \$300 and \$1,000, the industrial to agricultural investment ratio is 3.8:1, with a growth ratio of 3:1. In 1987, China's industrial to agricultural investment ratio was as high as 6.4:1, with a growth ratio of 4.5:1. The state's agricultural investment as a percentage of its total investment in capital construction has also decreased from a 30-year average of 11 percent to 3.6 percent today.

Meanwhile, the economy is increasingly short-term oriented, and this tendency is spreading quickly across all sectors, including agriculture. In recent years, the peasants are no longer willing to increase agricultural input; they plunder their land and rob the soil of its fertility and its ability to resist natural calamities. The agricultural sector is shrinking. Take the output per unit of agricultural labor for example: In 1987, China's per capita GVAO [Gross Value of Agricultural Output] was only \$765, which not only does not begin to compare with well-developed countries' per capita figure of \$14,395, but is clearly below the world average of \$1,815; even compared with the average developing country, it is still \$150 below par. Experience shows that to develop agriculture, the peasants must feel secure. The cutting of agricultural investment year after year by the state not only does not add to the peasants' sense of security but has prompted some, especially the young and middle-aged and better-educated workers, to consider leaving the land, and it only takes the right opportunity to turn this idea into action.

It is not difficult to discern that any one of the above conflicts is sufficient to get the surplus labor force off the land. In early 1989, under very unusual economic and social circumstances, the compound effects of the above conflicts uprooted an unexpected one million peasants from the farms. The magnitude, speed, and direction of the flow were clearly beyond what society could handle, and momentarily it became a thorny social problem.

II. Go With the Trend of the Commodity Economy and Strengthen the Scientific Concept of Rural Labor Flow

The history of contemporary industrial development shows that the decreasing GVAO as a percentage of the GNP and the peasants' departure from the land to join the ranks of nonagricultural workers are an integral part of the developmental process. They are the products of industrialization and are also the preconditions to an agricultural society's transformation into an industrialized civilization. To date, if we look at the economically well-developed countries that have completed their industrialization tasks, their GVAO as a percentage of the GNP is never above 20 percent and their agricultural population as a percentage of the total population never exceeds 25 percent. The realities of economic development around the world tell us that the decrease in GVAO as a presentage of the GNP and the shrinking rural population as a percentage of the total population are the symptoms of the peasants' growing demand for nonagricultural goods and services, and mark the beginning of a new phase in the country's socioeconomic development. [passage omitted]

Meanwhile, we should also realize that the shift of the agricultural labor force to the nonagricultural sector is also a part of the development of the economic accumulation process. The length of this process to a very large extent is determined by the size of the GVAO as a percentage of the GNP. It is at this point that we find ourselves in trouble: Today, China's GVAO still accounts for as much as 33 percent of the GNP, which does not begin to compare to the well-developed and upper-middle income countries but is also clearly higher than the lower-middle income countries³ and ranks among the low-income countries. Vertical comparison shows that China's GVAO was 39 percent of the GNP in 1965. After 20 odd years of hard work, it so far has dropped only six percentage points. This rate is not only slower than low-income countries such as India and Pakistan⁴ but is lower than the average rate of all low-income countries.⁵ The above comparison indicates clearly that agricultural income is still the one stable source of income for the Chinese peasants and they are far more dependent on the land than people in any other country. This means that the shift of rural population to the nonagricultural sector in China will be a very slow process.

As a result of the above analysis, we should now have a better idea about the current trend of rural population flow:

First, the decline of the GVAO as a percentage of the GNP and the shift of rural population to the nonagricultural sector are the results of the transformation of China's dual economic structure into an industrialized society. They are also the preconditions to the development of the country's human resource and the improvement of the quality of its people. They are a part of China's economic and social development, and the trend is bound to continue. Consequently, the direction of urbanization is set and the peasants will leave the land and their hometowns, and this trend will not be reversed.

Second, among China's population of 1.1 billion, more than 200 million are illiterate, and more than 800 million are peasants. The GVAO plays a pivotal role in China's GNP. Facilities and employment opportunities in the cities are grossly inadequate, funds are scarce, and per capita resource is lacking; reform of the management system has been a long-drawn-out process. All these factors preclude absolutely the lifting of identity restrictions to allow the peasants to move about freely. In the near- to mid-term, the mobile rural labor force should accept the guidance of the state's macro policy and look for work in different sectors and at different levels, integrate with other factors of production, and form some kind of basic rural labor flow order.

III. Judge the Hour and Size Up the Situation—Select the Goals of Mobile Rural Labor Force Scientifically

Facts prove that the million-men strong rural labor flow in the early spring of 1989 was but the beginning of things to come; it was the prelude to the mass exodus of

peasants from the villages to the cities. "Preparation makes things work; unpreparedness leads to ruin." Today, it is essential that we have a program to guide the flow according to circumstances and, from a perspective that goes beyond this century, make the rural labor force flow a part of our socioeconomic development strategy and select different goals over different periods of time scientifically.

For the long- to medium-term, perhaps we should choose an economic policy that centralizes the industries and a social regulation policy that concentrates the population, and by concentrating funds and population first, we can complete the transformation of traditional agriculture into modern agriculture, rural population into urban population, and raise the country's level of industrialization and urbanization. To this end, we must formulate parallel economic development and population distribution policies that facilitate and complement each other:

On the one hand, by giving play to the market mechanisms, and concurrent with changing the existing pattern of large-scale industries and small-scale productions, the government should formulate a biased industrial policy to guide the township enterprises toward attaining economies of scale, promote the formation of relatively concentrated industrial productions, accelerate the rate of rural industrialization, and raise China's level of industrialization. We need to expand the nonagricultural sector's employment capacity and lower the percentage of the GVAO in the GNP and provide the material base to facilitate the rural population's smooth transition to the nonagricultural sector.

On the other hand, as China continues to give impetus to its industrialization, it must choose its urbanization goals to suit local conditions and conform to its own characteristics and the trend of centralization of the once dispersed population—the majority of the population that used to be scattered in the countryside will be living in compact communities in the urban areas. Thus, in the eastern region, we should remove the traditional city boundaries, build large urban centers in areas where there is a concentrate of industries, promote inter-urban merger, make the well-developed regions distinctly different from one another and turn them into structurally complete urban colonies that function well socially and economically, and use effective means to integrate the towns and villages, so that they can absorb more of the mobile rural population. In the central region, while giving play to the role of urban centers, we should set up satellite cities around them, and as they absorb more newcomers, they will become havens for the migrating rural labor force. In the western region, while giving full play to the ability of existing cities to develop new bases, we should build new cities where conditions permit, formulate some attractive policies, increase the population absorption capacity, and make the western region an important base for absorbing emigrants from other regions. Concurrent with promoting industrialization and urbanization, the localities should gradually abolish

all identity restrictions, from traditional household registration to the grain rationing system, and eliminate the workers' social status differences and recognize their equal social standing. We should set up a uniform labor market, encourage the move from the countryside to the cities, and raise the level of urbanization.

For the near-term goals, the shift of China's huge rural labor force to the nonagricultural sector is not a task that can be accomplished overnight; it will be a slow process. The current economic contraction caused by rectification and improvement will exacerbate the reversed flow of surplus rural labor force which began in 1987, and it will hamper the development of township enterprises and prevent them from accommodating the people that have returned. This forces the massive surplus rural workers to go back to the land which is their only way out, but this is not what they want to do, because they have already paid the price of giving up their previous jobs, which will be for nothing if they go back to the villages again, and psychologically it will be against their new-gained desire to make a fresh start. Moreover, many peasants will have to give up their immediate gains. Thus, many peasants have rejoined the contingent of mobile workers. This large contingent of workers is an obstacle to the rectification and improvement process. In view of all these, it is vital that we choose near-term goals that differ from the mid- to long-term goals and goals that in no way resemble the traditional management goals.

First, we must tap potential and act according to circumstances and guide the peasants toward rural-development type productions and infrastructure projects.

Statistics show that China still has several hundred million mu of arable but uncultivated land, 1.1 billion mu of barren hills and hillside suitable for afforestation, 600 million mu of grassy hills and slopes, nearly 100 million mu of unused water, and nearly 100 million mu of coastal beaches. Experts estimate that it will take around 4 million workers a year to work on developing these resources. Various rural infrastructure projects, such as building and repairing water conservancy projects, land and water maintenance, upgrading moderate and low-yield farms, repairing rural highways and so on will also require millions of workers each year. Concurrent with making funds available and providing technological services and material guarantee, governments at all levels should also formulate preferential policies and, using profit as motivation, guide the rural labor force to the nonfarm resources and to rural infrastructure projects to work on development-oriented agriculture and build infrastructure.

Meanwhile, we must have a correct industrial policy and readjust the township enterprises properly. Township enterprises that can increase society's effective supply or expand its labor absorption capacity deserve our support.

During the decade of reform, township enterprises have absorbed nearly 90 million rural workers. Today, we should take the opportunity of rectification and improvement to readjust township enterprises' product-mix. Township enterprises engaging in the processing of rural products, that put both ends abroad, that produce energy and raw materials, and those that are economically efficient, deserve more support in terms of funds, technology, and goods and materials. Township enterprises doing specialized work in cooperation with urban enterprises and those producing goods to complement the products of large-scale enterprises should be given more opportunities to grow. As these enterprises develop and expand, they should absorb as many rural workers as possible.

During this rectification and improvement period, if we make the proper choices and accomplish our near-term goals in shifting the rural labor force, then, as the development-type undertakings and the rural infrastructure projects make progress, it will be possible for us to accumulate funds, build up the population, and discipline the contingent and in turn create the conditions for a smooth rectification and improvement process and facilitate the transition to the mid-term goals of the shift of the rural labor force at the same time.

IV. Implement Systematically, Guide the Flow According to Circumstances, and Create the Conditions To Facilitate the Shift of the Surplus Rural Labor Force

To ensure the proper shift of the surplus rural labor force, besides having the correct concepts and selecting the goals scientifically, we must also create the right conditions for everything from the productive force to the production relations and from economic growth to human development.

(1) We need to deepen the reform process comprehensively, insist on a brand new system, and create the institutional conditions to facilitate the shift of the rural labor force:

Although it is imperative that the hundreds of millions of rural workers threatened by potential unemployment be shifted to other sectors, we are also faced with many obstacles due to some developmental problems, the most serious of which are the structural imbalance and poor fund-use efficiency. Statistics show that China's industrial sector, which accounts for as much as 73 percent of the total output value, can accommodate only around 25 percent of society's working population. This kind of imbalance between the industrial structure and the composition of working population is the fundamental cause of potential structural unemployment in the rural areas. It does not conform to the universal rule of economic development worldwide. Research also shows that around five percent of the state-run enterprises' stock of assets are being idled; they are worth 40-50 billion yuan. There is wanton waste of material resources. Behind the idled material resources are a mobile rural population seeking work plus many unemployed urban workers. The

only way to remove these obstacles that stem from structural causes and from the way materials are being used is to implement thorough and comprehensive reform, create a brand new system, and effect optimal allocation and proper development of society's resources via the circulation of the key factors of production. [passage omitted]

(2) We should readjust the industrial structure, continue to increase agricultural inputs, develop the peasants' personal input mechanism, and increase the agricultural sector's tolerance and the peasants' consumption of nonagricultural goods and services.

The gradual transition from being "just fed and clothed" to "relatively well-off" is a prerequisite to the successful shift of the rural labor force. The key lies in solving the grain problem. By the end of the century, assuming that the total population will be 1.2 billion, China will need 500 billion kilos of grain, at a per capita consumption rate of 410 kilos. But since 1985, China's grain production has stalled four years in a row while the population continues to soar. Per capita grain consumption has fallen from 393.5 kilo to 359 kilo. This no doubt will hold back the shift of the rural labor force. The agricultural slump can be looked at as a punishment for our reducing agricultural input. The stalled grain production in recent years is the direct result of the reduction in agricultural input.

Statistics show that for 30 years, the state's agricultural investment had averaged around 11 percent of its total investment in capital constructions; in recent years, it has plummeted to 3.6 percent. This has exacerbated the imbalance between industry and agriculture. This situation must be turned around quickly.

First, we should establish an investment ratio between industry and agriculture by law and increase the state's agricultural input. The key to readjusting the industrial structure and increasing agricultural input lies in changing the incorrect proportion between industrial and agricultural investments and the proportional rates of increase in those investments in order to increase agricultural investment. Based on forecasts of grain, feed, and cash crop production targets for the year 2000, if those goals are to be realized, the input of fertilizers must be increased to 150 million tons, and we must resume irrigation and expand the irrigation area to around 800 million mu, and agricultural machinery, rural electricity, agricultural-use petroleum, pesticide, and plastic ground cover must also be increased accordingly. To this end, it is imperative that, through legislation, we set the industrial and agricultural investment ratio at 4:1 and increase those investments proportional to a 2:1 or 3:1 ratio. We must make sure that the state's investment in basic agricultural installations does not fall below 10 percent of its capital construction investments. We should primarily fund projects that bring large rivers under control, build staple commodity grain bases, and fund large-scale agricultural infrastructure and other projects to increase agriculture's development

potential, and we must prohibit misappropriations to fund luxury consumptions and undertakings that facilitate "official profiteering" and "personal profiteering." There must be laws to guarantee all these.

At the same time, we should develop some mechanisms for peasant input and accumulation, mechanisms that encourage behaviors that conform to our long-term economic goals, and encourage the peasants to grow grain. In order to increase agricultural input, besides rectifying the government's investment behavior, we must also establish some social input and accumulation mechanisms to arouse the peasants' input impulse as well as to ensure continued agricultural accumulation. At the end of 1988, the rural areas had 120 billion yuan in savings deposits, and the peasants had 30 billion yuan cash on hand. If the money is spent on agricultural undertakings, it will have a tremendous effect on increasing the momentum of agricultural development and the peasants' consumption of nonagricultural goods and services. Thus, when we install a new land system, we should adopt some other measures: (a) We need to set up a social service system which includes the management of agricultural capital goods market and which unites with the market on the outside and the peasant households on the inside and provide services before, during, and after productions, guide agricultural productions so that they operate more like enterprises, and turn the individual operations gradually into socialized greater production. (b) On the premise that we continue to maintain macroeconomic control and regulation, we should gradually decontrol prices, enliven the market, and rectify the distorted pricing system. For the first step, we must adopt a flexible policy and permit local, decentralized policymaking, so that localities which are ready to decontrol prices can decontrol prices if it will not have an impact on the rest of the country. (c) The government should implement an agricultural protection policy, safeguard the peasants' interests, warrant that the trading of agricultural products will not be affected by external factors, reassure the people, and guarantee agricultural development. By adopting effective measures, correcting the shortsighted behavior, and setting society's input and accumulation mechanisms in motion, we hope to sustain agriculture's expanded reproduction.

(3) We need to vitalize education, improve the rural population's cultural quality, and increase the surplus rural labor force's freedom of choice.

Of the 240 million illiterate people in China, 90 percent are concentrated in the villages. Widespread illiteracy hampers rural development as well as obstructs the movement of the surplus rural labor force. Statistics show that there is a close relationship between the flow of surplus rural labor and the educational structure. Education is a basic determining factor in the shift of the surplus rural labor force to the nonagricultural sector. According to a State Statistic Bureau survey, among the workers who moved in 1987, 55.5 percent had junior high school education; 19 percent had some professional training. These percentages are much higher than the

proportions of people in these categories in the rural population. Looking at the relationship between the educational structure and the shift of labor force, the shift in the normal direction bears a positive correlation and the reversed shift has a negative correlation with educational standard: On the one hand, for a shift in the normal direction, for every 100 workers with better than high school education, 9.2 will make the move; 8.3 out of 100 with junior high school education will move; 4 out of 100 with elementary school education will make the move, while only 1.5 who are illiterate or semi-illiterate will make the move. On the other hand, in the reversed shift, only 9.46 percent of the people have better than junior high education, and 17.16 percent of those with less than junior high education who have left will go back to the farms, and as much as 21 percent of those are illiterate.

To turn around this backward rural education situation and facilitate the successful shift of the surplus rural labor force, it is imperative that we set the correct educational goals, increase the input of human capital, and make the income distribute more reasonable. First, we must rectify those concepts that seek quick success and instant profit and purify the purpose of education. The purpose of basic education is not to provide immediate economic benefits. Not only that, but basic education requires that the state or society continue to increase the input of human resources and nonhuman resources in order to sustain and expand its normal operation. The state and local governments must increase educational funding. Second, we must set up a reasonable allocation system and change the inversed income relationship between mental and physical works. We must develop the mechanism to increase the value of knowledge and create a social environment that attaches importance to the population's cultural quality. In addition, we must readjust the current educational structure and reform the curriculum, accelerate agricultural development, emphasize the technological upgrading of township enterprises, and make the rural economy more conscious of the need for scientific and cultural knowledge. We must control the natural increase in population, reinforce educational and legal concepts and provide universal education steadfastly. We must rectify the concepts that accentuate the differences between town and country and strengthen the rural area's vocational and technical education. These are not only effective means to raise the population's cultural standards but are also necessary conditions for the successful shift of the surplus rural labor force.

Footnotes

1. RENMIN RIBAO 19 Feb 1990.

2. The Chinese Academy of Sciences' State of the Nation Research Group has separated the country into three, overburdened, marginal, and surplus, categories by population, local resources, and grain production capabilities. The overburdened regions are Beijing, Tianjin, Shanghai, Liaoning, Fujian, Guangdong and Guangxi,

Guizhou, Yunnan, Tibet, Gansu, Qinghai; the marginal regions are Henan, Hebei, Shanxi, Inner Mongolia, Sichuan, Shaanxi, Ningxia, and Xinjiang.

3. In 1985, GVAO as a percentage of the GNP for the well-developed countries, the upper-middle income countries, and lower-middle income countries were 3 percent, 11 percent, and 23 percent, respectively.

4. For India and Pakistan, and comparing 1985 to 1965, the GVAO percentages have fallen from 47 percent and 40 percent to 31 percent and 25 percent, respectively, a drop of 16 and 15 percentage points, respectively.

5. Between 1965 and 1985, the GVAO of low-income countries have dropped from 42 percent to 34 percent, decreasing at an average rate of 8 percentage points.

Liaoning Province Expands Export of Labor

OW0201193691 Beijing XINHUA in English
1309 GMT 2 Jan 91

[Text] Beijing, January 2 (XINHUA)—Northeast China's Liaoning Province reported a big growth in its labor service exports to foreign countries in 1990.

Between January and November the province sent 13,760 people to perform labor services abroad, a 26 percent increase over the same period of 1989. Earnings from labor export reached 244 million U.S. dollars in the period, an increase of 103 percent over the previous year.

About half of the workers went to the Soviet Union, and the rest to some 20 countries and regions including Japan, Thailand and Singapore.

They went to work in a wide range of industries such as catering, construction, light industry, machine building, electronics, textiles, livestock raising and fishing. Some worked on labor-intensive projects while others worked on technology-intensive ones.

TRANSPORTATION

Two Qingdao Port Wharves Completed Ahead of Schedule

SK2512050590 Jinan Shandong Provincial Service
in Mandarin 2300 GMT 22 Dec 90

[Summary] After three years' arduous struggle, the two 20,000 ton-class sundry wharves of the first-phase project of (Qianwan) port area of Qingdao Port were completed ahead of schedule and were put into operation in a simple manner on 22 December. Zhang Ruifeng, vice governor of the province, Huang Zhen-dong, president of the State Communications Investment Corporation, and Yu Zhengsheng, mayor of Qingdao City, cut the ribbon at the opening of these two wharves.

Located at the southwest part of Huang Hai and Jiaozhou Bay, the Huangdao's (Qianwan) Port is faced with Qingdao port and is a key state project with highest investment in China's port construction history and with the largest handling tonnage. With a total investment of 888.5 million yuan, this project includes six new berths and some subsidiary facilities.

(Qianwan) port area will be provided with railway-highway- waterway coordinated transport network. Upon completion of this project, the annual handling capacity of Qingdao Port will increase from 30 million tons at present to 47 million tons, will become the first European-Asian continental bridge for China to march toward the world. It will also create a new environment for the opening of our province to the outside world and for improving the investment environment of the Qingdao Economic Development Zone.

Construction of Nanning-Kunming Railway Commences

OW2412165490 Beijing XINHUA in English
1539 GMT 24 Dec 90

[Text] Nanning, December 24 (XINHUA)—Construction on the railway linking Nanning, the capital of Guangxi Zhuang Autonomous Region, and Kunming, the capital of Yunnan Province, commenced today.

The 874 kilometer railway, which will run through Guangxi, Yunnan and Guizhou Provinces, costs over five billion yuan (one billion U.S. dollars).

A local official said that construction of the railway will be conducive to the economic development of southwest China.

Exceeds Annual Coal Transport Target

OW2512120790 Beijing XINHUA in English
1138 GMT 25 Dec 90

[Text] Beijing, December 25 (XINHUA)—The Ministry of Railways reported today that China exceeded its annual coal transport target of 600 million tons by rail on December 20.

The ministry projected that a total of 629 million tons of coal will be shipped by rail this year, or 20 million tons more than last year.

Statistics show that over 45 percent of the country's coal transport is by rail and that coal accounts for over 40 percent of the country's rail freight.

Coal is mainly shipped from north China's Shanxi Province and the Inner Mongolia Autonomous Region to south and east China or to coastal ports for export.

Guangdong Railway Line Completed

HK2712014190 Hong Kong HONGKONG STANDARD
in English 27 Dec 90 p 6

[By Alan Nip]

[Text] China's first rail line built with the help of private capital has been completed.

The Guangdong line will substantially cut travelling distances with provinces in southwest China, according to yesterday's official reports.

The line, from Sanshui to Maoming in Guangdong province, is expected to start operation next May.

Governor Ye Xuanping, Deputy Minister of Railway Tu Yourui and other provincial officials attended a ceremony to mark the completion of the line on Tuesday.

Mr Ye said the line was a major achievement and he placed high hopes on the role it would play in local development, the NANFANG DAILY said.

The 231-kilometre stretch from Yaogu to Maoming was built with funds raised by local residents.

China's official news media gave extensive coverage to the completion of the three-year project.

Mr Ye said the new experience of using private funds to build major construction projects should be encouraged during the Eighth Five-Year Plan (1991-5).

Observers noted that his remarks came at a time when the central government was urging the province to rely on its own resources to develop its economy.

The new line links three major rail lines—the Beijing to Guangzhou line, Guangzhou to Shenzhen, and Lijiang to Zhanjiang.

The railway is expected to benefit the commercially developed Pearl River Delta and the south-western part of Guangdong which boasts abundant natural resources.

It will shorten the transport distance between the two regions by about 1,000 kilometres. Provincial authorities now plan to raise public funds to build 10 major highways linking Guangzhou and each of the special economic zones during the next 20 years. The highways are expected to cover a total of 2,500 kilometres.

Five highways are planned to be built during the next five years. Cost estimates for the massive projects have not been released.

Local Railways To Expand

OW0301031591 Beijing XINHUA in English
0214 GMT 3 Jan 91

[Text] Beijing, January 3 (XINHUA)—Local railways will be expanded over the next five years to ease the burden of the state-owned network, according to a senior railway official.

Fang Hongji, deputy president of the local railway association, said that about 3,000 kilometers of new railway projects, funded by provincial or urban public and collective sources, would be built by 1995.

The expansion scheme, in line with the decision of the just-concluded Plenum of the party Central Committee to "strengthen the basic industries and infrastructure," would help local economic development and improve living standards.

Fang said most of the planned railways would aid the transportation of foreign trade goods, coal and other minerals.

He said some railways would also be constructed in minority inhabited, border and poverty-stricken regions specifically to improve the quality of life there.

Local railways are funded and managed by localities. The association, under the ministry of railways, is responsible for feasibility studies, planning and construction of local railways.

At present, local railways cover 4,400 kilometers; state-funded and managed railways cover more than 52,000 kilometers.

Official statistics show that in the past five years, more than 1,600 kilometers of new local railroads were built and put into service at a cost of 1.7 billion yuan.

Fang said the investment for local railways in the coming five years would be six billion yuan. About one billion yuan was expected to be provided by local governments in the form of loans, and the rest would be raised by localities.

He said local railways had helped transport about 300 million tons of freight and 60 million passengers in the past five years.

Liaoning Aims Report on Dandong Port Construction

SK0501095091 Shenyang Liaoning Provincial Service
in Mandarin 2300 GMT 4 Jan 91

[Summary] Dandong Port has achieved excellent progress in port construction. The number of ports has been increased from two to three, and the port handling capacity exceeds 1 million tons. Thus, it has become the country's medium-sized port. Since 1986, in order to meet the needs of opening Liaodong Peninsula to the outside world, the country and Liaoning Province have

made a joint investment to renovate and expand the Langtou Port area and to build (Dadong) Port. By 1988, the three 3,000-ton-class berths in Langtou Port and the first 5,000-ton-class berth in (Dadong) Port were completed and commissioned. This has doubled the annual handling capacity of Dandong Port. The newly-built (Dadong) Port area has become the first warm-water port on the northernmost coastline of China. With the approval of the State Council, this port has been officially opened to foreign ships.

Port Facilities in East Region Developed

OW0501160691 Beijing XINHUA in English
1449 GMT 5 Jan 91

[Text] Shanghai, January 5 (XINHUA)—East China's coastal cities have attached special emphasis to the development of port facilities in recent years, according to local officials.

About 20 first-class ports dot the east China coast line and extend from the Shandong Peninsula to Fujian Province. The ports now handle in excess of 200 million tons of cargo each year.

The largest of the ports is Shanghai, which handles over 130 million tons of goods annually, and has business ties with over 400 ports throughout the world.

As part of the current development of the Pudong area, the Shanghai municipal government decided to establish a new harbor in the Waigaoqiao area. The first phase of the project will include the construction of four deep-water berths scheduled to begin in July, 1991.

The Beilun Harbor in Ningbo, near Shanghai, has become one of the country's largest handlers of minerals and petrochemicals. Local economists predict that the Ningbo port will play an important role in the economic upsurge of the Yangtze River delta.

Xu Weiming, vice-mayor of Lianyungang, Jiangsu Province, says: the "harbor is not only a terminal for transportation, it is an important link between our city and the outside world in efforts to implement the open policy."

Lianyungang, the eastern most terminal of a transcontinental railway system which links China with Europe, is preparing to develop an economy based on manufacturing, foreign trade and port services.

Wang Jiazheng, mayor of Rizhao City, Shandong Province, said that the advanced port facilities would help the city change the backwardness of its economy, and become a part of the current trend of opening to the outside world.

Rizhao City, a relatively late comer in opening to the outside world, compared to coastal cities in south China, has signed contracts valued at several hundred million U.S. dollars with overseas investors. A modern steel complex, similar to the Shanghai Baoshan Iron and Steel

Plant, might also be located in the city due to the advantages of its port facilities.

At the same time, Xiamen City, Fujian Province, located across the strait opposite Taiwan, is also developing port facilities to attract an influx of Taiwanese funds, while Qingdao Port in Shandong Province is preparing for a large increase in coal and petroleum exports.

Guangzhou-Shenzhen Railway To Rebuild for Express Trains

*OW0601154491 Beijing XINHUA in English
1227 GMT 6 Jan 91*

[Text] Beijing, January 6 (XINHUA)—China has recently decided to rebuild the Guangzhou-Shenzhen railway line making it accessible for express trains.

The latest issue of the CHINA TOURISM NEWS reported that the decision followed completion of a feasibility study on the project, and was made at a recent meeting in Guangzhou, the capital of south China's Guangdong Province.

The 147 kilometer Guangzhou-Shenzhen railway will be reconstructed during the Eighth Five-Year Plan period (1991-1995). The reconstruction project is expected to be completed and the railway put into operation in 1994, according to the paper.

The paper said that the express train will be able to reach a speed of 160 kilometers per hour on the line. The line will be the first of its kind in China and will be used mainly for passenger transport.

Guizhou Speeds Up Railway, Highway Construction

*OW0601164691 Beijing XINHUA in English
1240 GMT 6 Jan 91*

[Text] Guizhou, January 6 (XINHUA)—Guizhou Province, a remote mountainous region in southwest China, now ranks first in China in total length of electrified railway lines.

The province has completed 876 kilometers of electrified railway lines during the past five years, which now link it with the capitals of three neighboring provinces.

The province also constructed five highways during China's Seventh Five-Year Plan period (1986-1990).

The total length of highways in Guizhou will reach 31,000 kilometers by the end of this year, according to a provincial official in charge of communications.

The official added that by the end of the year all counties and over 90 percent of townships in the province will be connected with the provincial highway network.

The local government has also invested over 35 million yuan to harness the province's rivers and build new docks.

AGRICULTURE

Hunan Procurement Funds

*91P30065A Changsha HUNAN RIBAO in Chinese
14 Dec 90 p 1*

[Summary] By the end of October, the agricultural banking system in Hunan Province had allocated 1.611 billion yuan for farm product procurement, a 55.4 percent increase over the same period in 1989, and the issuing of IOU's to procure farm products has greatly decreased.

Analysis of Fujian Peasant Income

*91CE0032A Beijing ZHONGGUO NONGCUN JINGJI
[CHINA'S RURAL ECONOMY] in Chinese No 9,
20 Sep 90 pp 34-40*

[Article by Ma Guolin (7456 0948 2651): "Characteristics of Peasant Income and an Analysis of the Earnings Gap"]

[Text] In times of inflation and economic overheating, changes in peasant earnings, the size of the earnings gap, as well as the ability of peasants to cope with price increases are matters of general public interest. They also are a major issue that the drive to improve the economic climate and rectify the economic order must address. Using the province's permanent rural observation points—1,600 peasant households—as a sample, we have conducted an on-going survey in order to analyze and study this issue.

I.Characteristics and Causes of Increase in Peasant Earnings

1. The trend of rising peasant incomes. First, peasant incomes have been increasing faster than the gains in productivity for years. According to the 1989 survey, per capita net earnings were 989 yuan, up 158 percent over 1984, or 20.89 percent annually on the average. During the same period, gross earnings of the rural economy grew 101 percent, or 15.03 percent annually on the average. The increase in peasant earnings exceeded the growth of the rural economy by 5.86 percentage points. Second, as far as the distribution of peasant earnings is concerned, the proportion of high-income peasants has increased. In the four years between 1986 and 1989, the proportion of impoverished households with per capita net earnings under 300 yuan fell from 24.68 percent to 2.87 percent; peasant households with earnings between 300 and 600 yuan, 22.02 percent, down from 50.95 percent; between 600 and 1,000 yuan, 36.32 percent, up from 18.75 percent; over 1,000 yuan, 38.82 percent, up from 5.62 percent. Third, the extent to which peasant earnings are monetarized has gone up. Among households in the survey, per capita cash earnings had gone up 106 percent, or 27.33 percent annually on the average, faster than the growth rate of net per capita earnings as well as the rural economic growth rate. Cash now accounted for 99.28 percent of the earnings of a peasant

household. Of these earnings, a rising proportion consisted of incomes from the sale of products and labor services, while a declining share came from government relief, relatives, and savings. A peasant's cash earnings from physical labor and material labor have become the primary source of rural cash incomes.

2. Household production remains the main force behind the growth in peasant earnings. Over the past three years, the peasant increased his net earnings from the village cooperative economy and economic groups by 15.23 yuan, or 13.07 percent; from outside labor services, by 50.32 yuan, or 124 percent; from nonborrowing, by 63.59 yuan, or 109 percent; from household production, by 372.87 yuan, or 113 percent. Household production accounted for most of the increase in peasant earnings. His net earnings can be broken down as follows: household production, 67.1 percent, up from 66 percent; the village cooperative economy and integrated groups, 12.60 percent, down from 21.43 percent. As one facet of the dual production in the countryside, household production is the principal source of peasant earnings.

3. Structural adjustments in peasant household production are the basic factor behind the increase in household incomes. In the wake of the adjustment of the macro industrial structure in the countryside in recent years, the micro peasant production structure has also been modified. The scope of household production has been expanded from farming to include combined mountain and sea development and nonagricultural industries. Between 1986 and 1989, the peasant household's net earnings from primary industry increased 238.02 yuan, up 97.11 percent; from accounter industry, 63.14 yuan, up 262 percent; from tertiary industry, 71.71 yuan, up 104 percent. The ratio of a peasant household's net earnings from household production among primary, secondary, and tertiary industries, originally 71.67 percent:7.23 percent:21.10 percent, has now become 67.15 percent:12.43 percent:20.42 percent. While the shares of the primary and tertiary industry have declined, that of secondary industry has increased. Within the primary industry, the share of farming dropped 6.9 percentage points, while that of fishery and animal husbandry rose sharply. Within farming, incomes from cash crops have increased rapidly. The diversification of household production has broadened the scope of peasant economic activities, boosting his earnings.

4. Net earnings from agricultural by-products, whose prices have been deregulated, have risen sharply over the past three years. Net earnings from the production of fruit and tea, animal husbandry, and aquatic industry, where prices have been deregulated, increased 280 percent, 180 percent, and 150 percent, respectively. The dual track pricing system has been introduced in grain and peanut production while sugar cane is under centralized procurement. Procurement prices for these three crops have been raised successively in the past three years, the procurement system has been improved gradually, the exchange by all localities with peasants has

become more economic, and grain output has grown 6.15 percent. Nevertheless, the peasant's net incomes from these three crops have increased only marginally because of the rising costs of agricultural inputs. Sugar cane output has dropped several years in a row, yet the costs of inputs per kg of sugar cane have shot up 82.3 percent.

II. Imbalances in Peasant Incomes Distribution

1. The gaps in peasant earnings among the province's three major economic zones have continued to widen. The three zones—the plain, the hills, and the mountains—differ considerably in economic foundation and natural conditions. Because of historical, cultural, accessibility, and geographical reasons, as well as the macro-industrial policy, peasant earnings vary markedly. Within three years, per capita net earnings rose 822.3 yuan, or 133 percent, on the plain; 368.5 yuan, or 86.19 percent, in the hills; and 318 yuan, or 77.94 percent in the mountains. The growth in per capita net earnings and the rate of growth was most rapid in the plains and slowest in the mountains, with the hills somewhere in between.

In 1989, per capita net earnings in the hills and the mountains fell short of the average net earnings for all households in the sample by 19.5 and 26.6 percent, respectively, while per capita net earnings in the plain exceeded the average by 45.5 percent. The gap in per capita net earnings between the plain and the mountains widened from 51 percent to 98.2 percent, while the gap between the plain and the hills was now 80.8 percent, up from 44.1 percent in the past. Changes in peasant earnings in the three major economic zones show that the fragility and backwardness of the economy in the mountains has become more and more pronounced. The rural parts of this province are concentrated in the production bases of such bulk commodities as grain, timber, bamboo shoots, and livestock, which happen to be found mainly in the mountains. In 1989, the mountains out-supplied the hills and plain in grain 306 percent and 4,500 percent, respectively, on a per capita basis. Corresponding figures for marketable meat were 173 percent and 203 percent, respectively. Despite its significant contributions to the development of the entire province's economy, the incomes of peasants in the mountains have grown the slowest. This imbalance shows that the current "taking more and giving less" economic policy toward the mountains has severely hampered economic development in the region and exacerbated the economic imbalance among the three major economic zones.

2. The earnings of peasants in different lines of production have all been increasing, but the gaps between them have widened. Although agriculture has been doing quite well in recent years, the relations between agriculture and industry and between the different sectors within agriculture itself have not been straightened out. In 1989, net earnings per day from grain production averaged 4.59 yuan, down 34.11 percent from the 1986 figure

of 6.16 yuan. Average net earnings per day from the secondary and tertiary industries exceeded net earnings from grain production by 145 percent and 333 percent, respectively, up from 87 percent and 150 percent. Comparative advantage, inequitable to begin with, continued to tilt in favor of nonagricultural lines of production, making industry more profitable than agriculture and the circulation sector notably more profitable than production. As a result, the profits of agriculture, especially grain production, are lost to other sectors, directly diminishing the material interests of grain growers. In the past three years, peasant households whose main occupation was growing grain increased their per capita net earnings by 331 yuan, or 79.29 percent. Meanwhile, peasant households engaged in the secondary industry increased their per capita net earnings by 780 yuan, up 1.3-fold, and peasant households in the tertiary industry increased their per capita net earnings by 631 yuan, up 83.47 percent. The net earnings of grain growers used to lag those of peasants engaged in secondary and tertiary industries by 28.92 percent and 43.78 percent, respectively. Because of slow growth, however, now they fall short by 44.71 percent and 51.82 percent, respectively. Within agriculture, the incomes of grain growers have also been declining relative to those of peasants in other lines of production. Three years ago, the ratio of per capita daily net earnings of grain growers to those in fruit and tea cultivation, in forestry, and in fishery was 1:1.77:1.36:2. Now it is 1:2.49:2.21:4.8. The annual incomes of grain growers used to be lower than those of peasants in the above categories by 39.81 percent, 35.41 percent, and 36.19 percent. The corresponding figure now are 53.75 percent, 43.18 percent, and 50.72 percent, respectively.

3. Turning to the distribution of gross net earnings in the countryside, there has been a tendency toward bipolarization as high-income peasant households come to own a sharply rising share of gross rural incomes. During the past three years, impoverished households in the survey and those with barely adequate means of subsistence increased their per capita net incomes by 157 yuan, or 47.24 percent on the average, which is 8.71 percentage points higher than the growth rate of per capita net incomes of affluent households making more than 1,000 yuan, or 38.53 percent. As a result, the ratio of the earnings of affluent households to those of impoverished households has been adjusted from 3.38:1 to 3.18:1. But since the incomes of affluent households increased far more than those of their impoverished counterparts, the incomes disparity between the two grew from 777 yuan to 1,048 yuan, or 34.88 percent. Affluent households account for a sharply rising share of the gross net incomes. At the beginning of the three-year period, the proportion of people making less than 500 yuan in net incomes on the average, between 500 and 1,000 yuan, and over 1,000 yuan was 64.1 percent:25.2 percent:10.7 percent. Now that ratio has become 15.72 percent:47.89 percent:36.38 percent. The breakdown of gross net incomes among these three income levels, formerly 46.4 percent:38.2 percent:15.2 percent, is now 6.66

percent:36.06 percent:57.28 percent. The share of gross net incomes that goes to affluent households rose from 4.5 percent to 20.9 percent, which is out of proportion to their share of the population. Rural net incomes are rapidly being concentrated among affluent households.

4. Judging from the survey, there are four major reasons why peasant earnings have been increasing at varying rates. First, differences in the quality and quantity of natural resources, geographical location, accessibility, and information and the resultant differences in producers' incomes. Second, the ownership of elements of production and the extent to which chemical fertilizers, pesticides, and agricultural loans are guaranteed by the state at low costs. This is the direct cause of the incomes gap. Third, differences in the size and caliber of the manpower of each peasant household, along with its employment pattern, extent of employment, and the number of dependents. This is the subjective factor behind the incomes gap. Fourth, for reasons that have to do with procurement policies and prices, people in different sectors and lines of production are compensated differently despite an equal amount of labor inputs. Their tax contributions to the state also differ considerably, thus subjectively worsening the imbalance in incomes growth between peasant households. Certainly in the process of becoming rich together, peasant households should not and cannot achieve a uniform degree of wealth at a uniform pace. The party's policy is to allow some people to become wealthy ahead of others through honest hard work and legitimate production. On the other hand, if peasants are compensated excessively differently because of social reasons that have nothing to do with the peasants themselves despite an equivalent amount of labor inputs, we will have difficulty mobilizing the production enthusiasm and creativity of all workers.

5. At present, in particular, some people have deviated from the path of honest labor and legitimate operations to make large amounts of money in improper and even illegal ways, leading to severe disparities in incomes and unequal distribution in the countryside. Three major reasons account for the income gap between the upstarts and ordinary peasant households. To begin with, the system of contract responsibility in the countryside is imperfect and contract management is unsound. In some collective mountain forests, orchards, tea plantations, fishery ponds, and enterprises, contract base figures for capital goods are set too low. In certain collective enterprises, the contractor is concerned only with personal interests and does not hesitate to cut back on equipment and consumption to reap huge profits. In some enterprises, contract targets are less than comprehensive as they cover only incomes and the distribution ratio for profits, ignoring accumulation, depreciation, and the amount of profits to be retained. The contractor over estimates incomes and underreports expenses. Through sham distribution, he is able to line his own pockets with collective incomes. Second, in the transition between the old and the new systems, policies, rules and regulations

do not dovetail very well. A number of key policies have remained unclarified for a long time, giving a few people a loophole they can exploit. Taking advantage of the dual-track pricing system, some grassroots cadres earn huge sums of money in the form of "commissions," "price differentials," and "advantage fees." Others use the opportunities created when the state adjusted the prices of agricultural byproducts to buy cheap and sell dear, making a bundle by profiting from other people's toil. Third, industry and commerce administrative agencies and tax agencies have little macro control and management capabilities and are capable of only ineffective regulation. Most individual households in industry and commerce evade paying taxes. Some do not record transactions in their books, making it impossible to check their accounts; one can only estimate how much taxes they should pay. By bribing workers from the tax agency, others get away with only paying a small sum of human relations fees. Yet others pass off the bogus for the real thing, or shoddy goods for high-quality merchandise and cheat their customers by under-measuring or under-weighing, making a fortune in unethical ways. There is widespread dissatisfaction among the masses with the excessive earnings of these people. Unfair distribution in the countryside has severely damaged the production initiative of the broad masses of peasants, poisoned the social climate, exacerbated all sorts of contradictions in rural areas, and hampered healthy economic development there. Unfair distribution has now spread beyond the economic sphere to the social and political arenas. Accordingly, we must correctly handle the relationship between letting some people becoming rich ahead of others; making everybody rich together and properly differentiating between a legitimate earnings gap and an illegitimate earnings gap, between reasonable disparities and unreasonable disparities. Only then can we ensure that peasants will be better able to cope even as their incomes increase.

III. Price Factors Having an Increasingly Notable Effect on Changes in Peasant Incomes

1. More and more the increase in peasant incomes can be attributed to increases in the prices of agricultural products. Currently three major factors help determine the growth in the peasant's production-related net incomes: one, productivity and production costs; two, rising prices for agricultural byproducts; and three, taxes payable to the state and collective. In the past three years, while the magnitude of price increases has come under some control, the prices of agricultural byproducts steadily continues to be adjusted upward. The price factor plays an increasingly prominent role in shaping how peasant incomes change. In 1989, the per capita production-related net incomes of the households in the survey rose 468 yuan over 1986, up 105 percent. In the same period, according to calculations by the provincial Statistics Bureau, the prices of agricultural byproducts increased 65.1 percent, which would translate into an increase of 353 yuan in per capita incomes, or 75.43 percent of the increase in production-related net incomes. Another

111.6 yuan, or 23.59 percent, came from new production and cost-cutting measures. Tax refunds from the state and the collective accounted for yet another 33.4 yuan. Thus the increase in peasant incomes is primarily attributable to the prices of agricultural byproducts. The trend is for such prices to play a more and more important role in boosting the peasant's production-related net earnings in the years to come, while the reverse is true for other variables like new production, cost-cutting measures, rising efficiency, and tax cuts.

2. Note that the substantial increase in per capita net incomes attributable to rising prices for agricultural byproducts conceals to a large extent the tendency for production to stagnate and even decline in certain sectors of agriculture. In 1989, the total grain output of the 1,600 households grew just 6.06 percent over the year before and aquatic output increased a mere 4.46 percent. During the same period, however, incomes from grain production and the aquatic industry expanded 10.43 percent and 31.93 percent, respectively. It is prices that gave rise to apparent fast growth in the two sectors. In 1989, the afforested area worked by the surveyed households declined 4.47 percent compared to the year before, while pork, beef, and mutton output fell 15.17 percent and the number of live pigs was down 12.18 percent. Yet the earnings of the forestry and animal husbandry industries grew 32.77 percent and 16.46 percent, respectively. When net earnings increase even as output goes down at a time when material costs have not fallen, it means that the prices have risen more than 100 percent, concealing the declining trend in output in these two sectors.

Normally, raising the prices of agricultural byproducts is enough to stimulate production. Today the prices of agricultural byproducts have been raised, yet their stimulating effects have not materialized. This proves from yet another perspective that whatever benefit the peasant may have derived from rising prices for agricultural products has been offset by price increases for other commodities. Relatively speaking, it still does not pay to be a peasant, who must contend with rising production and opportunity costs. This is the fundamental reason why agriculture has been languishing.

3. The gap between the peasant's nominal net incomes and his real incomes has been widening. The momentum of growth for the latter has been declining. The peasant is both producer and consumer. As prices go up for social commodities across the board in an endless cycle, the peasant has to pay more for daily necessities and capital goods even as he makes more money from his products. As the prices of products made and marketed by the peasant on his own are raised, he reports an apparent increase in prices. Hence the gap between the peasant's nominal earnings and his real incomes. Between 1987 and 1989, per capita net incomes among households in the survey increased 307 yuan, or 42.58 percent. Meanwhile, the prices of daily necessities rose 44.8 percent and the prices of fixed assets of an agricultural production nature went up 40.3 percent. Because of the increases in the prices of consumer goods, agricultural

capital goods, and services, however, the peasant has to shell out an additional 240.4 yuan on the average per capita. If we discount inflation, per capita peasant incomes actually rose a mere 66.6 yuan, or just 10.08 percent. Judging from the changes in per capita peasant earnings in the past three years, the ratio between real incomes and nominal incomes, formerly 0.95:1, is now 0.84:1. The gap is widening over time. Thus, after we factor in the price factor, the growth rate of his real net incomes has been sliding year after year.

4. As a result of inflation, the living standards of a substantial portion of peasants have dropped instead of rising. Of the 1,600 households surveyed, 396, or 25.17 percent, have been hit hard by rising prices. What limited funds they had on hand were eaten up by inflation. Moreover, with the tight-credit policy, they could not find people to lend them money and had to cut back on production inputs. The upshot is a drop in per capita nominal net incomes. In the case of another 472 peasant households, or 30.01 percent, nominal net incomes had increased, but not fast enough to cover the extra outlays needed to pay for more expensive daily necessities, agricultural capital goods and services. Real peasant incomes had not gone up. If we put these two groups together, the living standards of some 55.18 percent of the peasant households in the survey had actually declined instead of going up.

5. Because of the wide disparity in their incomes, peasants in different income brackets have varying abilities to cope with rising prices. Let us regard as high income the top 20 percent of the peasant households on the earnings scale and as low-income the bottom 20 percent. In terms of the increase rate of nominal net incomes, the low-income bracket did better than the high-income bracket, the ratio being 55.6:39.9 percent. However, if we look at the growth rate of real net incomes, the high-income bracket did better than its low-income counterpart, the ratio being 22.8 percent:2.4 percent, after discounting inflation. The ability of peasants to cope with price increases is in direct proportion to his net incomes. This is the underlying reason for the stagnating and even declining living standards of low-income peasants as prices go up.

IV. Deep Reform Facing Growth of Peasant Incomes

1. The survey makes it clear that while per capita peasant earnings on the surface increased rapidly in recent years, income growth slackened, and, in the case of many households, even fell, due to continuous price increases and the widening price scissors between industrial and agricultural products. This is especially true for those who produce commodities vital to the national economy and the people's livelihood; their living standards have not improved. A small number, on the other hand, have been making too much money, reaping huge profits. The result is extreme income disparities and unfair distribution. Although there are normal and irregular reasons for this, the root cause is that the growth environment created by rural reform no longer meets the need of

sustained growth in peasant incomes. Rural development faces new tasks, such as creating a new macro development environment, developing macroeconomic reform while rectifying the existing macroeconomic environment.

2. Further adjust the relations between the state and the peasant. This is basic to determining the earnings of agriculture and the incomes of peasants. During the first step of rural reform, the party and government honored the peasants' wishes and safeguarded their interests. As a result, agriculture made rapid progress. In the past two years, however, the peasants' interests have been neglected, as demonstrated most strikingly in the following ways: First, on the one hand, the state demands that peasants step up the production of key commodities vital to national economy but in short supply at the moment. On the other hand, it has failed in its resolve to cut back on the construction of a nonproductive nature, which would have squeezed out some money to finance its exchanges with peasants. Instead, it continued the "second type of tax" approach: when the economy does not generate enough monies, it tries to close the shortfall administratively. Some localities have even introduced policies and measures to limit the circulation of agricultural byproducts one after another. The deregulated sector of agriculture is shrinking daily. Decision-making authority given to peasants earlier is also being diminished. Second, there has been no change in the national economic development strategy that favors industry. The investment policy and distribution policy continue to give preference to cities. Year after year there is loud talk about strengthening the agricultural base, yet investment in agriculture remains on the back burner. Within industry, those sectors that produce goods used in agriculture have been stagnating, which means inadequate supplies of agricultural capital goods and skyrocketing prices. Some sectors and localities irresponsibly make peasants pay all sorts of fees and charges. The indiscriminate apportionment of expenses and collection of fees continues apace despite repeated attempts to prohibit them. The burden on peasants is getting heavier by the day, exceeding the growth rate of per capita net incomes and the peasants' tolerance. Urban-rural dualism, which, at one point, had been easing up, is once again showing signs of hardening. Third, price reform has a clear bias in favor of industry and the city. The prices of agricultural products have been increased by smaller margins than those for industrial products and other services. The peasant "gains little, loses much." The price scissors between industrial and agricultural products continue to widen, severely dampening the peasants' interests. Add inflation and currency depreciation, and you have a peasant population whose confidence in the rural economic policy is badly shaken. To ensure continued growth in peasant incomes today we must urgently sort out the relations between the state and peasants. We must rebuild macroeconomic regulatory and control mechanisms, reverse the urban bias of the overall policy, reduce exactions from peasants, base our transactions with peasants on the law of value, and protect peasants'

legitimate interests. All sectors must instill in themselves the sense of considering the general interests. The reduction of the burden on peasants must be put on the agenda in earnest. Agriculture and the interests of peasants cannot be sacrificed or impaired simply to further the interests of one's own sector or trade.

3. Adjust the income distribution structure to end unfair distribution. First, there must be a policy to regulate high-income trades. Their huge earnings attributable to preferential state policies must be rectified and lowered. Tax rates should ignore the boundaries between different ownership systems. Based on the industrial policy, the profit margins of service trades normally should not exceed the average profit margin of the area of production. High-income sectors should be required to pay additional or new resource tax, agricultural tax, and income tax in order to curb excessive earnings. Having accomplished that, we should make state-owned, collective, and private enterprises compete on a level playing field, which will reward the strong and weed out the weak. Second, agricultural contract management must be improved. There should be open bidding in collective assets contracting to make the process more open. Unreasonable contracts should be firmly corrected. Enterprise contract targets must be improved. The base figures should be determined in a reasonable manner. The way profits are made, the value of assets is increased, and technical transformation is effected, must be evaluated rigorously. Third, micro regulatory methods should be used to regulate and balance the comparative advantage between the various trades and lines of production within the rural cooperative economy. Based on their profit margins, we should work out reasonable collective retention methods and other methods to divide up the social burden in order to ease the burden on grain and sugar cane growers. We should continue to aid the livelihood and production of peasants below the poverty line. Fourth, step up the management and tax collection of private enterprises and self-employed individuals to ensure that they operate in accordance with the law. Even as we intensify their tax-paying consciousness, we should improve tax supervision and control, ensure that personal income tax is really collected, rectify illegal incomes, and outlaw illegal business operations that net huge profits. Fifth, increase honesty in government and expedite law-making; make a serious effort to resolve the issue of power-money exchange; protect legitimate incomes; regulate excessive earnings; prohibit illegal incomes.

4. Closely integrate price increases for agricultural products with the rectification and nurturing of the market. The two should move ahead in tandem. Judging from the survey, agricultural prices, particularly the price ratios with grain, oil-bearing crops, and sugar cane, have returned to the previous levels. While this has something to do with the expansion of the scale of capital construction and inflation, the immaturity of the market and disrupted circulation channels are also a critically important factor. On the other hand, state and collective units,

enterprises, and institutions engaged in providing services before and after production have largely kept their old managerial practices and methods. They have little desire to involve themselves in the circulation of agricultural products that are not popular but vie for the control of products that sell well. Some units appear to have delegated authority and decontrolled on the surface, but continue to keep a tight leash behind the scenes. They practice local economic separatism and monopolize the buying and selling of products. They try to depress product grades and prices. The "slash and whip" policy, which means cutting back indiscriminately when there is a surfeit of supplies and demanding supplies in times of shortages, seriously eroding the sales earnings of peasants. At the same time, there are too many links between the production of goods and materials used in agriculture and their consumption. Every time goods move from one link to the next, their prices go up. After the introduction of monopolistic trading in some commodities, prices have still not been under control. Even worse, some units and individuals take advantage of the vacuum created by the transition from the old to the new by artificially jacking up production costs in agriculture. It seems that as long as the market remains undeveloped, the peasants' interests will not be safeguarded. Raising the prices of agricultural products, therefore, will not resolve the problem of low comparative advantage for agriculture in a fundamental way. Only when we combine this issue closely with the reform of the rural circulation system, the rectification of the circulation order, the reduction of circulation links and intermediate exploitation, and the cleaning up of circulation channels, promoting them in tandem, can we create an environment where peasant incomes can increase steadily.

(Writer's unit: Agricultural Commission, Fujian Province)

Nonpaddy Farmland's Potential To Increase Output

OW1401045191 Beijing XINHUA in English
0418 GMT 14 Jan 91

[Text] Beijing, January 14 (XINHUA)—The nonpaddy farmland which covers one-third of China's cultivated area has the potential to increase its output by 60 percent, according to a report in today's PEOPLE'S DAILY.

Scientists from the Chinese Academy of Agricultural Sciences have carried out research for five consecutive years in seven provinces and autonomous regions in northwest China, and come to this conclusion, the paper reported.

They analyzed the yields and water absorption of 13 major crops in those areas and concluded that the current output during the natural-rainfall seasons is far less than the land can produce.

They viewed infertility as the major problem, and suggested restructuring the crops and increasing the application of fertilizers.

The newspaper also reported that the scientists have conducted experiments on more than 300 ha of non-paddy lands and raised the output by about 60 percent.

Potash Imports Rank Second Highest

OW1101045991 Beijing XINHUA in English
0428 GMT 11 Jan 91

[Text] Beijing, January 11 (XINHUA)—China has imported over 7.5 million tons of potash fertilizer from Canada since 1972, making the country the world's second largest importer of potash, after Japan.

Today's overseas edition of the PEOPLE'S DAILY reported that a Canadian potash fertilizer company regards China as a potentially large market, even though the country now uses only a small amount of potash to fertilize its fields.

Canadian experts say that the use of nitrogenous and potash fertilizers is out of proportion in China. Normally, the ratio should be two parts nitrogenous fertilizer to one part potash, but in China the ratio is a low 40 to one.

The paper reported China imports over 14 million tons of nitrogenous fertilizer annually, but imports only around 300,000 tons of potash.

A balanced application of fertilizer is vital for improving crop output, according to experts. Over the past five years, the Canadian company has been engaged in promoting the balanced application of fertilizer in 11 provinces in southeast China. Thus far the program has achieved satisfactory results, the paper reported.

The ratio of nitrogenous and potash fertilizers in those areas has now reached 10 to one, and the gap is still narrowing.

The company has also set up a mixed chemical fertilizer works in south China.

Ningxia Rice Output

91P30051F Yinchuan NINGXIA RIBAO in Chinese
20 Nov 90 p 1

[Summary] Gross output on the 890,000 mu of rice in Ningxia reached 514 million kilograms, and the average per mu yield increased 17.7 kilograms over 1989.

Sichuan Establishes 2,000 Agricultural Service Centers

OW0401182391 Beijing XINHUA in English
1536 GMT 4 Jan 91

[Text] Chengdu, January 4 (XINHUA)—Southwest China's Sichuan Province had established 2,136 agricultural service centers by the end of 1990, since the first was established in the early 1980s.

These centers are engaged in providing instructions on the rational use of fertilizers and farm chemicals, diagnosis and prevention of plant diseases, identification and extermination of insect pests, and providing information on new farm machinery. In addition, the centers provide scientific and technical consultations and train agricultural technicians.

Statistics show that during 1990 the centers guided and assisted one million farmers in applying farm chemicals to over one million hectares of cropland.

During the same period the centers also organized 876 technical teams which specialized in the repair of tillers, irrigation facilities and other farm implements.

Currently, the centers have 1,000 senior agricultural technicians. They have also established 56 scientific and technological associations involving more than 5,000 members.

The association members have assisted over 41,900 farming households with agricultural activities, and contributed greatly to this year's bumper harvest.

Rural Banking Institutions Expanding Agriculture Loans

OW1201215391 Beijing XINHUA in English
1937 GMT 12 Jan 91

[Text] Beijing, January 12 (XINHUA)—China's rural banking institutions will provide more loans for agricultural development this year.

The scale of agricultural loans is expected to reach 25.3 billion yuan in 1991, 2.6 billion yuan more than last year, said Lin Zhongjie, vice president of the Agricultural Bank of China.

He said at press conference here today that the loans will go to key sectors of agricultural production such as farm irrigation projects, science research, material supply and farm machinery.

The loans will also be provided to farmers to expand production and comprehensive development, Lin said.

Meanwhile, rural enterprises will obtain more loans for adequate growth. Such loans have been planned at a scale of three billion yuan, which will be used to develop processing industry, energy industry and those turning out products for agricultural use.

Last year, China witnessed a bumper harvest of agriculture. Grain yields outstripped 420 billion kilograms.

Lin said that the rural banking institutions provided 142.1 billion yuan worth of agricultural loans last year, 34 percent more than in 1989. By the end of last year, total scale of agricultural loans increased by 22.7 billion yuan, record high in the history.

At the same time, the agricultural bank also provided over 220 billion yuan of loans to commercials departments for purchasing farm products in 1990, an increase of 36.8 billion yuan over the previous year.

Yunnan Autumn Crop Area

91P30051E Kunming YUNNAN RIBAO in Chinese
26 Nov 90 p 1

[Summary] As of 20 November, the late autumn grain and soybean area in Yunnan Province was 14,147,400 mu, an increase of 907,000 mu over the same period in 1989; and the oil crop area was 979,100 mu, an increase of 175,700 mu over the same period in 1989.

Heilongjiang Sets Guidance Prices for Grain

91P30051D Harbin HEILONGJIANG JINGJI BAO in Chinese
15 Dec 90 p 3

[Summary] On 7 December, the Heilongjiang Grain Bureau, Price Bureau and Agricultural Department set guidance prices for negotiated purchases of corn, rice, and soybeans. The guidance price for negotiated purchases of standard corn is 45.6 yuan per 100 kilograms, this is also the procurement price for special corn reserves. The state has stipulated that special corn reserves must be of second grade quality and above. The price of third grade corn will be set by each area. The guidance price for negotiated purchases of rice is 73.9 yuan per 100 kilograms, this is also the procurement price for special reserves. Special rice reserves must be of third grade quality and above. The guidance price for negotiated purchases of soybeans is 102.8 yuan per 100 kilograms.

Liaoning Grain Storage

91P30051C Shenyang LIAONING RIBAO in Chinese
24 Nov 90 p 1

[Summary] As of 20 November, Liaoning Province had put 1,226,000 tons of grain in storage, fulfilling 28.8 percent of the plan; of this amount, 772,000 tons of rice were put in storage.

Tianjin Reports Increase in Cotton Purchases

SK0901052391 Tianjin City Service in Mandarin
2300 GMT 8 Jan 91

[Summary] As of 8 January, supply and marketing cooperatives of our municipality had purchased 227,000 dan of ginned cotton, showing an increase of 112.29 percent over the corresponding period of 1989, and

creating an all-time high since 1985. Last year, Tianjin planted 261,300 mu of cotton, an increase of 66.2 percent over the previous year.

Bacterial Preparation Helps Increase Grain Output

OW0801032891 Beijing XINHUA in English
0300 GMT 8 Jan 91

[Text] Beijing, January 8 (XINHUA)—A bacterial preparation called "output-increasing bacterium" has helped China increase grain output by 15 billion kg in the past decade.

The preparation was developed by the late Professor Chen Yanxi of the Beijing Agricultural University to promote the growth of crops.

So far, the preparation has been applied to more than 50 varieties of crops on more than 26 million ha of farmland in 30 provinces, autonomous regions and municipalities. Generally speaking, the preparation helps increase output by 10 percent.

Calculation shows that by using the preparation, the rate of investment to output value is as high as 1:30.

Inner Mongolia's 1990 Harvest Shows Large Increase

OW0301025591 Beijing XINHUA in English
0215 GMT 3 Jan 91

[Text] Beijing, January 3 (XINHUA)—Inner Mongolia Autonomous Region harvested 9.73 million tons of grain last year, an increase of 43.5 percent over the previous year.

Average consumption of grain per person last year reached 450.4 kilograms for people in Inner Mongolia while the nationwide average was 393 kilograms, according to FARMERS' DAILY.

The region also harvested 690 million kilograms of oil seeds, an increase of 42.6 percent over the previous year.

To improve the region's agricultural production, 40,000 officials went to the countryside to help farmers. Investment in agriculture by the regional government also increased by 7.4 percent compared with the previous year.

Farmers invested a total of 160 million yuan.

The adoption of modern skills in farming also contributed to the increase in output, the paper said.

Timber Sales Reverse Negative Trend

OW0201191991 Beijing XINHUA in English
1511 GMT 2 Jan 91

[Text] Beijing, January 2 (XINHUA)—Sales of timber in China have shown signs of recovery since September of

1990, thus putting an end to a negative growth trend which started early in the year.

Statistics from 16 provincial and municipal timber companies reveal that September sales of timber amounted to over 636,000 cubic meters, up 3.8 percent over the same month of 1989. October sales increased to over 800,000 cubic meters, up seven percent over the previous October, and a 25.8 percent rise over September.

Timber stockpiles had reached 2.94 million cubic meters by the end of October, a 3.5 percent increase over 1989's same month, but down one percent from 1990's September figure and four percent from August. After certain readjustments a number of marketable varieties were added to stockpiles.

The 16 timber companies purchased timber in excess of 592,000 cubic meters in September, a 12.3 percent decline from the same month of 1989. October purchases dropped 15.5 percent from those in September.

As a result of timber price adjustments stipulated in the state plan, timber producers delayed delivery, thereby causing decreases in timber purchases in monthly figures in August, September and October.

At the same time, however, the market price of timber dropped. For example, the market price of larch log produced in northern China dropped to 586 yuan per cubic meter, down 100 yuan from the same period of 1989 year. Additionally, the market price of China fir from southern areas, which was previously 800 yuan per cubic meter, dropped by nearly 110 yuan.

Analysts attributed the difficulties of the enterprises to mainly the small differential between timber purchases and sales and the low market prices.

Sichuan Develops New Crop Strains

*OW0301192491 Beijing XINHUA in English
1509 GMT 3 Jan 91*

[Text] Chengdu, January 3 (XINHUA)—Sichuan, the most populous province in China, has made remarkable achievements in developing new crop strains in the past five years.

Among the achievements is the discovery of "Sichuan Apomixis Rice (SAR)" by the Sichuan Agricultural University. Experts believe this discovery may lead to another "green revolution," for new rice strains based on the sar may share the advantages of both hybrid and conventional rice—high-yielding, of good quality and resistant to most diseases and insects, and easy to propagate.

The 58 new crop strains developed in Sichuan in the past five years include:

"D-YOU-63," a rice strain developed by the agricultural university, is strongly resistant to diseases. This strain will help south China bid farewell to the scourge of rice

blight. Since it passed appraisal in 1987, the strain has been planted on 3.4 million ha in Sichuan.

"Luhongzhao-2," a rice strain developed by the Sichuan Provincial Academy of Agricultural Sciences, has increased yields by five percent compared to other double-cropping rice strains. Its growth period is also three to five days shorter.

"Nanshu-88," a sweet potato strain developed by the Agricultural Sciences Institute of Nanchong Prefecture, yields an output of 29,300 kg to 33,000 kg per ha, some 25-27 percent higher than that of "Xushu-18," the most popular strain at present. In the past three years the strain has been planted on 420,000 ha and increased output value by 320 million yuan (about 65 million U.S. dollars).

Other fine crop strains are of wheat, corn, rapeseed and cotton.

In the past five years the province has organized 330 scientists in 20 research institutes and colleges and invested 5.7 million yuan in the development of new crop strains.

Sugar Output Reaches Record High

*OW0301194991 Beijing XINHUA in English
0734 GMT 3 Jan 91*

[Text] Beijing, January 3 (XINHUA)—China's output of sugar reached 5.25 million tons in 1990, an all-time high and 4.8 percent more than in the previous year.

Meanwhile, China has made great progress in sugar-refining technology. Advanced facilities such as high-speed sugarcane crushers and continuous separators have been developed, and computerization has been introduced to the industry.

Sources at the Ministry of Light Industry said that the country is planning to produce 10 million tons of sugar annually by the year 2000.

Sichuan Cotton Procurement

*91P30051b Chengdu SICHUAN RIBAO in Chinese
11 Dec 90 p 1*

[Summary] As of 30 November, Sichuan Province had procured 92,000 tons of ginned cotton, fulfilling 92 percent of the plan.

Trade Protectionism in Farm Machinery Reported

Regions Blockade Farm Machinery

91CE0159A Beijing NONGYEH JIXIE [FARM MACHINERY] in Chinese No 9, 18 Sept 90 pp 3, 2

[Article signed Ru Xin (1172 1800): "Some Situations of Mutual Blockades by Various Localities of Their Farm Machinery Markets"]

[Text] In Province A, the Commission for Planned Economy, the Department for Machine Building and Electronics, and seven other units issued to subordinate agencies in February of 1990 "Regulations for Widest Use of High Quality and Energy Efficient Machinery and Electrical Products Manufactured in Our Own Province." In these regulations it says: "Products from outside our province must not be used if high quality and energy efficient machinery and electrical products can be supplied within our province for the needs of local engineering projects and for items of technological transformation in our province." "If high quality and energy efficient accessories are available in our province, any plant manufacturing the main items must not use products from other provinces, as otherwise banks shall refuse payment."

The deputy head of the said provincial department of machine building and electronics said: Speaking from my own personal standpoint, I would not propose measures of local protectionism because it would not be good for economic readjustment. However, in the marketing of farm machinery there are unhealthy tendencies, and it is not possible to gain a market in fair competition. We drew up this document to open a way for the marketing of high quality machinery and electrical products manufactured in our province. Views on the said document differ, some go along with them and some only selectively. At the bottom of all this local protectionism is the principle of "cooking everyone's own meal at separate kitchens," [the system of dividing revenue and expenditure between central government and local governments], and it is up to the central authorities to straighten out the problem. A deputy director of the said provincial farm machinery company said, local protectionism can be advantageous for the manufacturing enterprises in the province, but is disadvantageous for trading and marketing companies like ours. Several farm machinery plants in the provincial capital also raised objections. The director of a tractor plant said: Some of the tires used on our walking tractors are manufactured in this province and some come from outside, all are high quality, and in quality about equal, but those manufactured in our province cost 10 yuan more. If we use only tires manufactured in this province, calculating at an annual production of 30,000 walking tractors, we will have to spend several ten thousand yuan more. A comrade at the diesel engine plant said: Our diesel engines are accessories used by over 20 tractor plants (three within this province). About 65 to 70 percent of components for the products of our plant are manufactured outside of this province. If we blockade each other, it would play havoc with existing cooperative relations and would in the end adversely affect the production of farm machinery.

In Province B, the department of machine building and electronics approved and circulated in July of 1989 a "Summary of a Work Conference on the Farm Machinery Company System of B Province to Enhance Control of the Farm Machinery Market." This document

explicitly demands that preference shall be given in marketing to the high quality products of one's own province. Within the total volume of small tractors being marketed, the ones of good quality from the own province must amount to no less than 70 percent. In October of the same year, the provincial agricultural bank and the machine building and electronics department jointly issued a "Circular Regarding Questions Relating to Small Tractor and Small Diesel Engine Business of Farm Machinery Companies." The circular prescribes that all farm machinery companies in prefectures, municipalities, and counties that have to handle high quality small tractors and small diesel engines from outside the province must submit a plan to the provincial farm machinery company. The provincial farm machinery company will then prepare a unified plan, select the particular items of machinery and their quantities, determine the total amount to be imported, and will then determine what tractors and diesel engines from outside the province are to be included in the business plans of the various counties (municipalities), and the prefectural (municipal) farm machinery companies will arrange for the importation and will also handle settlement of accounts and payment procedures with the parties outside of the province. All banks will, in the future, no more handle direct settlements and payments for their client county (municipal) farm machinery companies to manufacturers of tractors and diesel engines outside of this province.

Starting in the first week of July of 1989, the said provincial farm machinery company held eight conferences throughout the province on this particular topic and checked progress made in every single area of the seven prefectures and municipalities and in the over 80 counties visited. They believe the advantages of their measures to be:

- 1) Protection of peasant consumer interests. First, stabilizing commodity prices and facilitating selection and purchase of farm machinery by the vast numbers of consumers. Second, preventing substandard, false, or inferior products to come into the market. Third, attaining a much-improved performance of the "three contract undertakings" [quality, time, cost] and in technical services; components for production within the province to be supplied or repairs effected within seven days, and supply of products from outside the province also at most not to exceed 15 days.

- 2) Supporting development of the farm machinery industry in one's own province. The gross output value achieved by the farm machinery industry in 1989 was 8.4 percent higher than that of the record production of 1988. Profits of 33 key farm machinery plants was eight percent higher than in the record year of 1988.

- 3) Asserting the role of the farm machinery companies as main channels for the supply of farm machinery. However, this method of determining the quantity to be imported of high-quality products manufactured outside the province and of protecting the market for small

tractors and small diesel engines manufactured inside the province has already met resistance in some other provinces. For instance, because restrictions had been placed on the sale in this province of products of a certain diesel engine plant of a certain province, that province delayed inspection and acceptance of moon cakes and water pumps from this province, and delayed and restricted marketing of these items.

In the C autonomous region, the government issued in December of 1989 a "Circular on Questions Relating to Improving the Economic Environment and Rectifying the Economic Order With Regard to the Farm Machinery Market and To Promote Farm Machinery Production in this Region." The circular prescribes that farm machinery companies at all levels in some districts of the autonomous region must exclusively handle the small four-wheel tractors manufactured by two tractor plants of this region and must "stop all imports of equally efficient small four-wheel tractors from outside the region. Otherwise, banks shall refuse payment, the farm machinery inspection agencies will refuse registration, and the petroleum supply agencies will not supply petroleum. Fulfillment of all 1990 contracts for the supply of small four-wheel tractors concluded by farm machinery companies at all levels with suppliers outside of this region must immediately be stopped." The circular demands that the said two tractor plants within the region gradually raise the proportion of diesel engine components from a certain plant within the region, which they had used for several years, to over 50 percent. The administrative office of the said region also prescribed in implementation of the mentioned circular that 1990 sales of small 4-wheel tractors manufactured by farm machinery companies of this region must not be less than 70 percent, and in 1991 not less than 80 percent of all sales in this region.

The director of the farm machinery company of the said region expressed the opinion that implementing the circular issued by the government of the autonomous region had the following advantages:

1) It restored order in the farm machinery market. It put a stop to the chaotic situation created by some individual entrepreneurs and "government-run" companies outside of the farm machinery system rushing into the farm machinery business. As a result of the circular, the farm machinery company system will be able to increase its 1990 sales volume by some 20 to 30 million yuan.

2) It enhanced esteem for and understanding of work in the far, machinery area done by governments at all levels and by the industrial-commercial government departments, which had made it possible for the two tractor plants in the region to have a stable annual production of 20,000 small four-wheel tractors, which gave support to the industry of ethnic minorities in the region, and which proved beneficial for an overall consolidation of the situation.

3) It reduced transport needs for farm machinery, made it possible to save on transport charges, and relieved pressures on the state's transportation facilities. Marketing costs per small four-wheel tractor from outside the region would be 150 yuan, while for those produced inside it would only be 50 yuan, so that this cost differential, calculated for the marketing of 20,000 tractors, would add up to 2 million yuan.

Problems that still remain are: First, reactions against the "blockade" from places outside the region. One tractor plant outside the region which had already shipped in several hundred small four-wheel tractors demanded return of the goods, and finally also did not want gear wheels and diesel engines that had been delivered to that plant as components. The said region also did not want the small four-wheel tractors from a certain plant but then had to fear they would not supply them the needed large tractors. Second, new conflicts are arising between industry and commerce and between various commercial enterprises. The factories in the region complain that the prefectural (municipal) farm machine companies order too few machines, and that they themselves could sell but are prevented from selling, while the prefectural (municipal) companies blame the companies at the basic level for not replenishing their stocks. Third, it limits the peasants in their opportunities to select and buy the best. Although products of the two tractor plants of the region are of good quality, their performance with regard to the "three contractual undertakings" and service is not as good as that by some plants outside the region. By adopting administrative measures to limit the peasants to locally produced products has things come out contrary to people's wishes, and this has a detrimental effect on sales. One person from a tractor plant said, after we installed only diesel engines that were manufactured within this province into 30 tractors, not even one of them was sold. Fourth, while the region is not yet completely closed against tractors from outside the region, some local areas within the region have already started their own little blockades.

Circular on Correcting Blockades

91CE0159B Beijing NONGYE JIXIE [FARM MACHINERY] in Chinese No 9, 18 Sep 90 pp 2-3

[Ministry of Machine Building and Electronics and Ministry of Materials: "Circular Demanding Determined Correction in the Matter of Some Farm Machinery Markets Instituting Blockades"] [Text]

In the great setting of China's present movement for the improvement of the economic environment and rectification of economic order, a debilitating phenomenon has been occurring since the latter part of last year in the farm machinery market. Some provinces, autonomous regions, and directly administered municipalities have raised regional blockades to enable some of their own farm machinery enterprises to extricate themselves from their difficulties. They have imposed rigid regulations as

to types and quantitative ratios, have adopted restrictions against products from outside of their territories, such as refusing registrations, refusing payment, or cutting off gasoline supplies, to protect the sales of farm machinery produced within their own territory. The trend of adopting these methods is still growing, and many other provinces, autonomous regions, and directly administered municipalities are imitating those that have already adopted these methods, while there are even some prefectures and municipalities that have started their own little blockades.

These methods of erecting regional blockades in the farm machinery market protect the backward and are detrimental to the movement for improvement of the economic environment and rectification of the economic order, and have a serious impact on the normal development of some very key enterprises of the country. They are also an impediment to the development of planned commodity economy and to raising the level of the farm machinery industry; it is an objectionable and shortsighted way of acting.

For a more effective implementation of the policy of improving the economic environment and rectifying the economic order and to correct the setting up of regional blockades by some provinces, autonomous regions, and directly administered municipalities, we are issuing this circular:

1) Policies of regional blockades shall be relinquished immediately. All provinces, autonomous regions, and directly administered municipalities must order their protectionist policies as abolished. They shall continue their firm support of the policies of reform, opening up, and of enlivening the economy, and shall welcome entry of products from outside their territory which are the same types of high quality products manufactured within their own territories. Enterprises shall make every effort within their own territories to enhance management, improve technologies, and to expand or gain markets due to the high quality of their products and their services.

2) Production enterprises shall be helped to overcome their difficulties by correct guidance and assistance. Departments in charge in all localities shall direct their main efforts toward guiding enterprises to cope in correct ways with their temporary difficulties; they shall assist the enterprises in enhancing management, tapping potential, and improving technologies. They shall support the enterprises with respect to funds, taxation, raw materials, energy supply, and information on the needs of the market, helping them to readjust their product mix, to develop new products that have a ready market, to raise the quality of their products, and to improve the services they offer. These alone are the correct ways to help enterprises overcome their difficulties.

3) Efforts are to be made to start up and open up the farm machinery market. Every locality must take advantage of the present favorable and opportune time to

"mobilize the entire party and the entire nation for a concentrated effort toward success in the development of agriculture," and all policies that are particularly favorable for agriculture must be conscientiously implemented. Such are, for instance, increasing investments and loans to agriculture, supporting the renewal of worn-out farm machinery, price subsidies for the purchase of large- and medium-sized farm machinery and tools, abolishing various irrational taxes and unjustified levies on purchases of farm machinery by peasants, etc. These measures would certainly be helpful in stimulating the market, in promoting sales, and would also benefit farm machinery production. Efforts should at the same time be directed toward improving the concomitant conditions for the use of farm machinery, i.e. providing effective supplies of gasoline and effective post-sale services, and bring about in a variety of aspects a new situation in the production and marketing of farm machinery, thus improving our service to agricultural production.

4) Reviewing and exchanging new experiences acquired among the masses. Departments in charge at all levels must step up investigation and research to gain an understanding of the new situation and to be able to solve the new problems that have arisen in the movement of improving the economic environment and rectifying the economic order. At the same time as control of the farm machinery market is being strengthened and quality of work and services are improved, it is necessary to protect lawful competition and to put a stop to local blockades. Prompt review and circulation of new experiences acquired among the masses in such matters as overcoming difficulties and opening up new fields and achieving new advances, will give new impulses to the healthy development of the entire farm machinery trade.

Whoever has gained any useful experiences or worked out a good method in efforts to correct the fallacy of regional blockades of farm machinery markets, please promptly let us know, so that we may arrange for dissemination of this information.

16 July 1990.

Liaoning Silkworm Procurement Policy, Prices Discussed

91CE0086A Shenyang LIAONING RIBAO in Chinese
9 Oct 90 p 1

[Article: "No Change in Procurement Policies; Sericulturists Encouraged To Sell Good Cocoons"]

[Text] According to information supplied by the Liaoning Textile Industrial Department, silkworm procurement policies have not changed in 1990. The policy established by the State Council and the Liaoning provincial government states that "Silkworm cocoons are purchased through centralized procurement from state-run silkworm cocoon stations; no procurement from

other units or individuals is permitted." This policy remains in effect. However, procurement standards and prices have changed.

The silkworm cocoons that sericulturists wish to sell to the state must be checked and accepted by the state-run cocoon stations based on grade, as outlined in the "Fresh Tussah Cocoon" standards put forth by the State Technology Supervision Administration. Procurement prices for large cocoons are set based on Agricultural Regulation No. 720—the "Circular on Reorganizing Tussah Procurement Prices"—promulgated by the State Commodity Prices General Administration and the Ministry of Foreign Economic Relations and Trade. That is, Grade 3, Class 1 cocoons—in which the silk layer comprises 10 percent of the total cocoon and no more than two percent of the cocoons are unsuitable for reeling—constitute the middle-range standard grade, which earns 3.3 yuan per kg of fresh, reelable cocoons (including returned chrysalides and exuviae). At the same time, Liaoning's Price Bureau and Textile Industrial Department have also stipulated payment of 1.4 yuan per kg for Class-1 Inferior and Substandard Cocoons, and 1.3 yuan per kg for Grade-2 Substandard Cocoons, and have abolished payments for hard, dry cocoons. The 1989 prices remain in effect for all other inferior grades of cocoons. The reason for these changes is that for many years we have been losing good tussah cocoons in Liaoning because procurement was based solely on "grading by the number of inferior cocoons per thousand": we have been able to inspect only the cocoon selection standards applied by sericulturists, and cocoons with thick and thin silk layers alike have been priced according to weight. State standards, on the other hand, "assign grades based on the cocoon silk layer ratio, and classes based on the percentage of cocoons unsuitable for reeling." Under that system high-quality cocoons with thick silk layers are assigned a high grade and sold for a high price, and cocoons with large chrysalides and thin exuviae are assigned a low grade and sell for less. Consequently, the new standards better apply the policy of "setting prices based on quality, with higher prices reserved for superior merchandise." This helps sericultural farms and the scientific research sector of the sericulture industry to raise and popularize superior silkworm varieties, and it also helps to spark enthusiasm among sericulturists for selecting and selling good cocoons. This is beneficial for the state and the sericulturists alike.

Liaoning Fertilizer Overstocks Analyzed

91CE0086B Shenyang LIAONING RIBAO in Chinese
9 Oct 90 p 2

[Article by LIAONING RIBAO reporter Wu Di (0702 6970) "Small Fertilizer Plants—A Summary of the Overstocks in Small Fertilizer Plants in Liaoning"]

[Text] Fertilizer sales have been quite bleak in 1990—there is no sign of the competition over fertilizer that emerged two years ago. Fertilizer is piled like mountains

at the 44 small fertilizer plants and perhaps 1,000 firms involved in the commercial distribution sector in Liaoning. Production and sales at small fertilizer plants are in trouble.

The market for chemical fertilizer is also in slump. According to statistics compiled by chemical fertilizer companies in Liaoning, although from January through March consumption of coal and electricity by small fertilizer plants decreased 219 kg and 63 kwh, respectively, per ton of synthetic ammonia produced, a fier overall industry losses were offset net losses still reached 15.485 million yuan. Out of 25 small producers of nitrogenous fertilizer, 21 suffered losses, and out of 19 small producers of phosphate fertilizer, 14 suffered losses. Production has dropped at all 44 small fertilizer plants, yet stockpiles continue to grow. In the first half of 1990 stockpiles reached 90,000 tons at small nitrogen fertilizer plants, and 135,000 tons at small phosphate fertilizer plants. Five of the former and eight of the latter ceased production and idled their workers. If this continues we will see a recurrence of the small fertilizer plant closings that occurred several years ago. How to save our many small fertilizer plants from this danger has become a matter of serious concern at all levels of government. Experts feel that we need to get a handle on "small-plant fertilizer" in the following ways:

We must strengthen overall planning, strictly control the total quantity of fertilizer imports, and avail ourselves of the advantages of locally produced fertilizer. It is our understanding that in 1990 Liaoning plans to import approximately the same quantity of fertilizer it imported in 1984 and 1985. From fertilizer sales between January and April of 1990, it appears that this year we will sell 198,100 tons more imported fertilizer and 357,500 tons less Liaoning-made small-plant fertilizer than in 1989. The application rate for phosphate fertilizer has remained approximately the same. Across the province, departments concerned have pointed out that if imports of ammonium phosphate do not increase this year, not only will there be no increase in industrial and commercial stockpiles of ordinary phosphate calcium fertilizers, but small phosphate fertilizer plants will not have to cut back production by 134,300 tons. Most important is that rapid increases in border fertilizer trade have now grown out of control, and this has had a severe impact on the market for fertilizer produced within the province. Consequently, we must strictly control the total volume of fertilizer imports to protect Liaoning's own small fertilizer plants.

We should extend lenient, preferential policies toward fertilizer produced in small plants and continue reasonable policies already in effect. Previously, in order to alleviate shortages on the fertilizer market, the commodity pricing departments in some localities stipulated that markups on locally produced chemical fertilizers must be kept to eight percent, whereas markups for fertilizers imported from other provinces could go as high as 12 percent. This encouraged the business sector to look far and wide outside the province to make

purchases in pursuit of high profits. This continued until recently, when the glut of province-produced fertilizer appeared and it became necessary to lower the markup on imported fertilizer to five percent. However, by that time a large quantity of fertilizer produced outside the province was already flooding into Liaoning, and it was too late to change it. According to preliminary statistics, Lingyuan County alone purchased and imported 3,000 tons of chemical fertilizers produced outside Liaoning. This accounts for 30 percent of its planned fertilizer use for the year. The situation is even worse in Harqin Zuoyi Mongolzu Autonomous County and Jianping County. Second, we should also adopt some flexible policies—drawing strict provincial boundaries only makes Liaoning a prison and ties our own hands. In the past, other provinces tried every means at their disposal to get their hands on our locally produced fertilizer, but Liaoning's strict restrictions prohibited its export. Now that there is a glut on the market and we are finally looking outside our own borders for relief, the door has been closed in our faces. In addition, it would also be an effective strategy for leaders at all levels of government to take a personal interest in the matter and make a conscientious effort to solve the crisis that faces small fertilizer plants. The provincial government's clear cable sent last May asked that all departments concerned help enterprises to conquer their temporary problems and organize current production. Agricultural supply departments must do procurement on schedule, and wherever there are chemical fertilizer plants the county governments must disburse all enterprise stockpiles of fertilizer down to the countryside at the beginning of June. However, there are a few cities and counties which cannot adopt capable measures, so for some factories the fertilizer glut will continue unchanged.

Resolving the peasants' difficulty in selling their produce gives them money to buy fertilizer. A survey that the departments concerned conducted on 225 township peasants in 40 counties and prefectures shows that the vast majority of the peasants have not planned for as much nitrogen fertilizer as they need. One reason for this is that peasants, seeing that there is a fertilizer glut, are in no hurry to buy it; another reason is that some regions

have been too slow in extending agricultural loans and credit. In addition, at the beginning of the year peasants in the eastern mountain region experienced difficulty selling their silkworm cocoons and mountain fruit crops, and in the west and north peasants had problems selling their surplus grain. This meant peasants had less money on hand with which to stock up on the fertilizer they would need. Consequently, we need to move quickly to resolve "selling problems," help out with last year's accounts, plan adequately for this year's accounts, extend agricultural loans and credit funds as early as possible, and avoid a reemergence of this vicious cycle.

Chemical fertilizer plants are agricultural support enterprises. They are also enterprises that earn minimal profits. With respect to supplying coal and electricity to these plants, we should implement the "two guarantees" policy in order to ensure that chemical fertilizers produced in small plants can compete in the marketplace. Liaoning's small chemical fertilizer plants are largely coal-powered. Coal and electricity account for 50-70 percent of production costs. In the past, because we employed a planned supply system exclusively, the cost of fertilizer production was kept down to only about 120 yuan per ton. Now that even exchange and negotiated procurement are integrated into our system the cost has suddenly shot up to more than 300 yuan per ton. For many plants, this means that the more they produce, the more they lose. Our neighboring provinces, Hebei and Nei Monggol, however, have instituted the "two guarantees" policy for small fertilizer plants, keeping the cost of fertilizer production down to 280 yuan per ton. This has had a major impact on the market in Liaoning. Some agricultural credit departments and supply and marketing departments would rather ship fertilizer by vehicle from Pingquan or Chifeng than to buy high-priced locally made fertilizer.

Liaoning experts have pointed out that if we fail to change this situation quickly, stockpiles of fertilizer produced at small Liaoning plants may reach 280,000 tons by the end of 1990, and the situation will be more serious than the one that plagued us when we had 170,000 tons of unsalable fertilizer stockpiles in 1985.

More Barriers To Studying Abroad

91CM0016A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 223, 1 Sep 90 p 9

[Article by Yan Di (3601 4564): "The Communist Party of China Erects Strict Orders Regarding Overseas Education"]

[Text] More Barriers in Application Formalities

Recently, concerned departments in the CPC initiated a new regulation on studying abroad. It requires that all applications for overseas study, including admissions notices, financial support affidavits, and visa applications, must be notarized before they can be recognized and approved.

To our knowledge, this new regulation requires that "the prescribed order be followed," and the following tedious formalities gone through before the applications are finished. It is really difficult to pass through these barriers.

1. All application documents for overseas education must be notarized by the school which issues those documents.
2. Next the documents must be also notarized by the local court in the district where the school is located.
3. The documents must be sent to the government of the state in which the school is located and be signed by the state's secretary.
4. The documents are then submitted to the notarization section of the U.S. State Department, which will notarize the signature of the Secretary of State.
5. The documents will be submitted for approval to the Chinese Embassy (Consulate) of the place in question.
6. The documents are again sent back to the school that issued them. The school will then send the documents to the applicant in China.
7. The applicant in China may then take the documents to the local public security organ and apply for a passport.

According to the Independent Federation of Chinese Students and Scholars [IFCSS] in the United States, because this new regulation is complicated, it will place an unnecessary burden on both schools and applicants. Moreover, there is no country in the world today which has ever had such unreasonable requirements. Therefore, this action by the CPC has created a very bad impression among institutions of higher learning in the United States. Practically all major institutions of higher learning have refused such a regulation. The U.S. side feels very disappointed about this regulation and may possibly take a passive attitude towards offering admissions and financial assistance to Chinese students and scholars.

The Statement by the IFCSS in the United States

The IFCSS issued a public statement on this matter. In the statement the IFCSS strongly protested such an unpopular regulation by the CPC. The IFCSS demanded that the National People's Congress instruct the State Council and the State Education Commission to rescind the new regulation on notarization and remove the

restrictive policy that requires students to serve for five years after graduation. Meanwhile, the National People's Congress should thoroughly examine and revise those regulations concerning education abroad which have violated citizens' basic rights.

The IFCSS maintains that such action by the China's communist government has further obstructed the channels of international education and cultural exchange, violated the basic human right of mainland Chinese to receive an education, caused international disgust, and damaged the image of China. This action is quite contrary to the Chinese authorities' repeated statements that they will stick to the policies of reform and opening up to the outside world, and will not obstruct their people from receiving an education abroad.

The IFCSS calls on all its members to contact the international student and scholars affairs offices at their schools and find out about the offices' attitudes towards the new regulation made by the CPC, how the regulation has been implemented, and the impact it has had on applications for I-20 by Chinese students. At the same time, they must express the IFCSS' stance on this matter to the school authorities, and ask them to continue to take an active attitude and measures to admit and give financial assistance to Chinese students and scholars. In addition, members should also make timely reports on what is happening in their schools to IFCSS headquarters.

Results of Two Polls

According to a survey report on the thoughts of students at Beijing University [Beida] which was prepared in May by the Beijing University Graduate Student Association, 44.1 percent of those surveyed thought that the current policies on education abroad were very unreasonable; only 5.4 percent considered the policies reasonable. They were asked to choose one of six responses to the question, "What is your current frame of mind at Beida?" There were 27 percent who believed "nothing is interesting," 16 percent who maintained that "the only hope is to go abroad," and only 6.1 percent who held that "it is time to develop one's ability to the fullest." When asked "What do you think about the wave of going abroad?" 56.5 percent of the students said that "Since there is no future at home, people have no other alternative but to go abroad." Only 18.7 percent believed that "we may return to serve the country when we finish studying abroad." There were 15.8 percent who said they "looked forward to Western life." Only nine percent indicated that they were just "flowing with the tide." This survey was conducted using the sampling method, and the targets of the survey were graduate and undergraduate students from all classes at Beida. There were 600 questionnaires distributed, and 453 were returned.

At the same time, Chinese students and scholars at the University of California at Los Angeles [UCLA] conducted another survey of the impact of "4 June incident" on the plans of Chinese students and scholars in the

United States to return to China in the future. At the time of the survey, there were 408 mainland Chinese students and scholars at UCLA. There were 112 valid questionnaires returned. Survey results indicated that, before the "4 June incident," 60.5 percent of the students and scholars were "determined to return to China after graduation." After the "4 June incident," the percentage who chose "will definitely return" or "will most probably return" dropped dramatically, to 4.5 percent. The percentage who chose "will definitely immigrate to the United States" or "will most probably immigrate to the United States" increased from the previous 11.6 percent to 64.1 percent.

Causes for Abduction of Women

91CM0040A Shanghai SHEHUI [SOCIETY]
in Chinese No 67, 20 Sep 90 pp 4-5

[Article by Li Deshun (2621 1795 7311): "Why Women Become Commodities"]

[Text] The problem of the illegal practice and crime of abducting and selling women as commodities was generally stamped out in the 1970's, but since the 1980's, especially the late 1980's, it has become quite a serious social problem. Such a vicious activity, whose goal is obtaining money through abducting and selling women, has in some areas evolved into a system of specialized coordination between production and marketing. It has also developed a phenomenon where abductors determine the price of the abducted women according to the grade of their physical appearance, age, and shape. Households specializing in such practices and upstarts have thus appeared. According to relevant data, the number of individuals engaged in this business is in the thousands, and as many as tens of thousands of women have been abducted and sold. This activity has put millions of yuan in circulation. The scale of the business is broad, and it reaches into more than 20 provinces and cities. The reasons that such an inhuman crime and illegal practice has grown to such a grave extent are complex and multifaceted. These reasons may be traced to history, and we can also find links to the development of the commodity economy. We may find explanations related to politics and culture, and even aspects related to morality. If, however, criminals are able to abduct women who have intellect, feeling, and the ability to resist, and if criminals can sell them as commodities, then the occurrence, development and existence of such a crime has to be related to the psychological needs of the abducted and to certain regions' demand for these special "commodities." It also cannot be separated from business interests, and must be connected to the strength of society's ability to restrict such deviations from social norms and legal regulations. The author analyzed the results of his recent survey of some inmates undergoing reeducation through labor because they abducted and sold women, and found there were four basic reasons for the rampant abduction and sale of women in the recent past.

1. Some young women from poor, remote regions in certain southern provinces, especially those from such regions in the southwestern provinces of Sichuan, Yunnan, and Guizhou, have a psychological need to break away from their difficult living conditions and go to a rich region where the economy is well-developed, with the expectation of finding jobs away from home. This provides opportunities for criminals who think the road to riches may be by abducting and selling women. It is true that some of the women sold are from townships where the economy and culture are fairly developed, and that they fall into criminals' hands because the criminals use violent measures, such as force and coercion. However, most victims from remote or poor rural areas are abducted through fraud and traps. It is not hard to find the key to the repeated success of criminals who abduct women through tricks and traps; the answers lie in the victims' psychological needs. The investigation reveals that, although the victims are from many provinces, they are relatively concentrated in remote and poverty-stricken areas in the provinces and autonomous regions of Sichuan, Yunnan, Guizhou, Guangxi, Hunan, and Hubei. Of these, Sichuan has the highest percentage of poor areas, and thus also has relatively many victims. The major reason for this is that in the aforementioned provinces, cities, and autonomous regions, young women, especially married women from remote and poor regions, have low social status, great labor intensity, heavy household responsibilities, and their lives are rather hard. Such realities of life not only lead to many single women's psychological need to free themselves from a poor, hard life by going to prosperous regions, settle in economically developed areas, and find factory jobs away from home, but also to a very small group of married women's aspirations to search for a new life through divorce, remarriage, or elopement to other areas. These low-level psychological needs and unsatisfied aspirations offer opportunities for abductors to engage in fraud. Objectively speaking, since some of the young women who used to live in poverty-stricken areas have low demands of life, when they are abducted and sold in areas where life is better than in their home villages, their psychological needs will be fulfilled. Their resistance will also vanish gradually and naturally, and some women will even grow used to their new living environment. After they have children, these women will brag about their feeling of satisfaction during visits home. After such news spreads in their home villages, it will not only objectively serve to give swindling abductors and sellers a demeanor of doing good deeds, it will also function as a live "advertisement," further reinforcing the mentality of those young women from relatively poor regions to settle elsewhere and laying the ground for producing more criminals who abduct and sell women.

2. In certain poor regions of northern provinces that connect north and south China, such as Shandong, Shanxi, Henan, and Jiangsu, there are quite a few bachelors of marrying age, late marrying age, or beyond marrying age who are anxious to find spouses. This

provides a "market" for selling women. The destination and movement of abducted and sold women is spread throughout relatively poor regions in the provinces of Shandong, Shanxi, Henan, Hebei, Jiangsu, etc. For example, in Shandong, buyers of women are concentrated in the poor and backward counties of Laocheng and Heze, and in Dezhou District. According to statistics from one reform-through-labor team in Shandong, approximately 1,500 women have been abducted and sold in the three counties in Liaocheng District. The reasons for the great demand for women in these areas include the following: First, women from these areas who reach marrying age try every means to settle elsewhere. This results in a local imbalance between men and women. Second, women from other regions are reluctant to find spouses here, which makes it more difficult for young men to find wives. Third, a small number of men with physiological defects are unable to have a normal marriage. Fourth, feudal marriage customs dictate that men pay as much as 5,000 to 6,000 yuan from engagement to wedding, which is hard to bear economically. As a result, many single men in these areas who are of marrying age, late marrying age, or beyond marrying age and who have physiological defects have thier dreams come true when someone obtains women for them, and they do not hesitate to pay the cost. These young men will gladly and willingly pay less than the normal marriage fees to buy wives. This objective existence of a "market" demand provides an active market for those whose livelihood depends upon abducting and selling women, or for criminals who use such activities as a means of getting rich.

3. Abducting and selling women requires little investment, no heavy physical or mental effort, carries little economic risk while it generates easy profits, fulfills presumptuous sexual urges, and thus offers great temptation and excitement. According to the investigation, the price for an abducted woman ranges from 2,000 to 3,000 yuan, while the highest price can be 4,000 yuan or more. Abductors' expenses are trivial; expenses merely include the cost of the woman's food and accommodations on the way. Furthermore, since abducted women are low in resistance, abductors may use threats, coercion, or seduction to satisfy their sexual desires. Making money with no investment or making a lot of money with a little investment in order to "get out of poverty and become rich" or richer is a great temptation. This, along with the excitement of satisfying sexual desires, not only reinforces the mentality of those criminals who abduct and sell women as a regular business, it also attracts more people, whose desire for material goods and sexual pleasures keeps growing, to engage in this vicious activity. Abductors sometimes travel from south to north, delivering "merchandise" to customers' doors, and sometimes go from north to south, searching for "supplies of merchandise" on their own. Sometimes they make a joint effort in both directions, one in charge of "production," the other in charge of "marketing," with each side benefitting. Sometimes they organize and divide up their labor, with some abducting and some

selling, and divide the profits. Consequently, such criminal activities became increasingly rampant in the 1980's, becoming social pollution in society. According to statistics from Shandong's Number One Reeducation through Labor Camp, between 1982 and 1989 the camp took in 300 individuals from both inside and outside of the province for reeducation through labor. These people had abducted or sold people (the vast majority of them had abducted or sold women). Of these 300 offenders, only one was taken in in 1982; by 1987 there was a drastic increase, with the camp taking in 142 in one year. In 1989 the camp still took in 87. The above statistics concern only one reeducation-through-labor camp. Actually, the number of criminals penalized for abduction in Shandong Province alone is several times greater than the figure above, not to mention the national figure. This sufficiently proves the seriousness of this social problem.

4. Loose rural organizations, grassroots public security committees that exist in rural areas in name only, ineffectual legal crackdowns on the crime, and lenient punishment promote the criminal mentality of taking risks and relying on luck. Since the countryside has carried out a general responsibility system of land contracts, grassroots organizations that already were loose have become even weaker, because construction of a grassroots power structure has been overlooked or slack. Many village, community, and public security committees exist only in mere forms. Quite a few village cadres are preoccupied with ways of getting rich, and they have no time or intention to do village administrative work. This is especially true in poor and remote areas. In areas where sellers obtain their resources, various outsiders and criminals are not effectively controlled, and thus criminals act without scruples. In areas where the abducted women are distributed, some village cadres do not think abducting women is wrong. Instead, they mistakenly think that those who abduct women have done a good deed for the village. Consequently, some support or act in collusion with criminals, enabling the criminals to be more active and fearless. In law enforcement offices, due to an insufficient police force, lack of information, and insufficient attention, those who abduct and sell women are not attacked in a timely or serious manner. Some criminals, therefore, are able to succeed over and over again. They abduct and sell dozens of women without being caught, and become upstarts with tens of thousand of yuan in their bank accounts. For those who are caught, lenient treatment by authorities and their inability to truly affect criminals' economic gains further reinforces the criminal mentality of taking risks. "Making 20,000 to 30,000 yuan is worth the risk of getting caught and sentenced to several years of imprisonment. If one is not caught, the money becomes pure profit." The existence of the above problems is a factor that leads to the rampant abduction and selling of women, and it is not easily ignored.

Presently, the criminal activity of abducting and selling women, which is one of the "six evils," has been curbed to a certain degree due to the recent, forceful crackdown.

It is imperative that systematic and comprehensive treatment measures be taken to prevent such activities from returning and spreading, and to gradually wipe out such a decadent social phenomenon. In the near future, we must use effective legal means to continue carrying on this special struggle against the abduction and selling of women. First, "close off the source." In areas where abduction is wide spread, strict control has to be exercised over suspicious strangers, making it hard for them to succeed. Second, "stop the flow." In places or transit stations where abductors can easily stay, we must effectively examine and question suspicious characters, making it difficult for them to have abducted people with them. Third, "block the market." In areas where the abducted are distributed, we must conduct strict, lawful searches, making the transactions impossible. Fourth, we must thoroughly investigate criminals and their activities, penalize them strictly and promptly according to the law, and confiscate their illegal gains, causing them to sustain economic losses. In the long run, we must work hard to eliminate the source that produces such a decadent social phenomenon. We should also rely on continuing to carry out general legal education and moral and cultural construction in rural areas, persist in changing customs and wiping out negative feudal traditions, and change the backward conditions in poor and remote rural regions in order to raise all peasants' cultural quality and the level of their spiritual demand.

Intellectuals Seen as Collaborators in Despotism

91CM0105A Hong Kong CHENG MING
[CONTENDING] in Chinese No 158, 1 Dec 90 pp 73-75

[Article by Liu Xiaobo (0491 2556 3134): "China's Modern Intellectuals and Politics, Part XIV"; Part XIII was published in JPRS-CAR-91-001, 8 Jan 91 pp 58-61]

[Text] *In China, where the inexperienced lead the expert and illiterates lead the intellectuals, knowledge is being extinguished with resulting cultural desertification. However, without a change in the despotic political system, and without a change in the political personality of the intellectuals, experts leading experts and educated people leading the educated could be even more frightening. The former use politics directly to extinguish knowledge, and the latter, using political power as backing, employ knowledge to extinguish knowledge.*

(Continued from No 158)

The phenomenon in Chinese intellectual circles whereby one person tries to do another in shows up mostly in the following three regards:

1. In every political campaign, a large number of intellectuals become the stooges and hatchet men of the powerholders, and their shouts and stratagems are more savage, more ingenious, and more venomous than those of the powerholders themselves. These intellectuals rack their brains to become officials. Every moment of the day, they watch for opportunities, and whenever there is the least sign of trouble, they come to the fore and charge

ahead. Furthermore, China's succession of political campaigns has provided them fine opportunities, one after another. The large-scale criticism in the "criticize Hu Feng," the "antirightist," and the Cultural Revolution political campaigns was also scripted by the intellectuals. The intellectuals' "making of small reports" in which they exposed each other has also been a regular bill of fare. The "eradication of spiritual pollution" and the "antiliberalization" campaigns following the Cultural Revolution were also orchestrated by the intellectuals. China's intellectuals behave this way, first, because of stupidity—they have blind faith in despots—and second because of cupidity. They use political campaigns as a means of rising to officialdom and becoming rich. I believe that during the early and middle of the Cultural Revolution political campaign, the stupid ones played the greatest role, but during the campaigns to "eradicate spiritual pollution" and "oppose liberalization" following the Cultural Revolution the ones who sought to preserve private gains were in the majority. Consequently, the result of every political campaign is that, first, some intellectuals prove through the test of struggle that they are loyal lackeys of the party and enter the body of bureaucrats. Then, another group of intellectuals is either done in or eliminated in the struggle. For example, during the 1940's and the 1950's, the intellectual group represented by Zhou Yang [0719 2254] defeated the intellectual group represented by Hu Feng, Feng Xuefeng [7458 7185 1496], and Ding Ling [0002 3781] became the hegemony of the Chinese intellectual world. Zhou Yang became the most authoritative interpreter of Mao Zedong Thought on literature and art. As another example, during the campaign to eradicate spiritual pollution, He Jingzhi [6320 2417 0037] and Ke Yan [2688 1484] criticized the "three abrupt rises" thereby making political hay. In the "antiliberalization" campaign, cultural luminaries such as Fei Xiaotong [6315 1321 6639], Qian Weichang [6929 0251 7022], and Zhou Gucheng [0719 6253 1004] won an even bigger political gamble for all to see. Yao Xueyin [1202 7185 0995], Zang Kejia [5258 0344 1367], and Chen Yong [7115 8673] also displayed their talents. Although they did not gain much in the way of material benefits, they made a big splash. The publication that Chen Yong ran, WENYI LILUN YU PIPING [THEORY AND CRITICISM OF LITERATURE AND ART], supplanted HONG QI [RED FLAG] for a time as the mouthpiece of the party in power. The incumbent China Writers Association party group (consisting of Bao Chang [7637 2490], Tang Dacheng [0781 6671 2052], and Cong Weixi [0654 4850 3556]) was also prominent in the "antiliberalization" campaign. One of their main achievements was the use of their power to get rid of ZHONGGUO [CHINA], a literary monthly that followed an independent editorial policy, and an effort to place in mortal danger the actual person in charge of ZHONGGUO, assistant editor Niu Han [3662 3352], in the name of "antiliberalization." The elimination of ZHONGGUO gained material benefits for Cong Weixi, the editor in chief of Writers Press,

who took charge of a large national-level literary publication, WENXUE SIJI [YEAR-ROUND LITERATURE]. He also consorted with others in the literary forum to form a cabal to eliminate the power and money of dissidents.

Yet another distinctively Chinese event was that, in the course of this political campaign, some renowned intellectuals supported the party powerholders in a demonstration of loyalty, using their academic position and social influence to serve as political tools of the rulers. The reason that the rulers gave some distinguished intellectuals the emoluments of high office after 1949 was partly as window dressing to show the rulers' democracy, and partly to get these intellectuals to stand on the side of the ruling party during political campaigns in order to be able to use the reputation of luminaries to corrode popular feelings. Distinguished figures in the literature and arts world such as Guo Moruo, Mao Dun, Cao Yu, and Lao She, and distinguished personalities in science such as Zhou Peiyuan, Qian Xuesen, and Qian Weichang, as well as figures in the academic world who became prominent following the Cultural Revolution such as He Jingzhi, Fei Xiaotong, and Zhou Gucheng played this role either willingly or contrary to their convictions. This was a never-ending puppet show in which the manipulators had a well-thought-out plan, proficiency, and clear-cut objectives, and in which the performers permitted themselves to be manipulated and played a complacent role. More interestingly, these performers and manipulators were completely unconcerned about public disgust and revulsion. They simply thickened their skins and went right on performing. Even when they had no audience, they continued to perform right up until their manipulators felt satisfied and stopped them. Use of the phrase, "helping tyrants do evil," to describe these intellectuals is, I feel, not at all going too far. Even more appallingly, some intellectual onlookers were filled with righteous indignation and reviled the performers endlessly for their performance, yet in their heart of hearts, they very much envied the performers on the stage. Should they suddenly be able to mount the stage themselves, their performance would certainly be no less that of those who went before them. Generation after generation condemning endlessly and performing endlessly was truly like "the follow-on waves of the Chang Jiang pushing along the waves ahead, each generation more powerful than the previous one." For the sake of political gain, China's intellectuals stood to fill the breach when other intellectuals fell, serving as political puppets. Among China's intellectuals, the fortunate ones had the opportunity to perform on stage, while the unfortunate ones could sweep out the theater or become part of the audience forever. Rarely were any of them able to refuse a self-demeaning role as political puppets. Condemnation followed condemnation, and one puppet act followed another. The long cooperation between the rulers and distinguished intellectuals enabled them to hone their skills to the acme of perfection.

2. Once an intellectual became an official, he turned against other intellectuals. The wearing of an official hat was oh so much more important than knowledge or truth. Therefore, when an intellectual took office, he could not grant authority to other intellectuals. On the contrary, he helped intellectuals even less. Such technocrats who entered the bureaucratic stratum from the intellectual stratum hurt intellectuals more cruelly and more brilliantly than illiterate bureaucrats. Articles, films, and plays that illiterate bureaucrats could not fathom became easy to understand once these technocrats explained them. People said that intellectuals changed once they became officials. Actually, the only change was in their status; their political personalities did not change. Political power enabled the actualization of their political personalities. A political personality is bound to look at everything in terms of politics, and to use political benefit (success or failure, gain or loss) in judging everything. Therefore, even before they become officials, China's intellectuals employ politics in judging the value of knowledge. Knowledge serves as a political tool. Knowledge serves as a stepping stone to becoming an official, and once one is an official, it serves as a tool for doing people in. For such intellectuals, knowledge solely for its own sake is valueless, and, should knowledge occasion risks for a person's political career, the intellectuals who have become officials will deal with other intellectuals cruelly. Possibly, once one has become an official, the only use for knowledge may be to more ingeniously do in other intellectuals.

In China, where the inept lead the expert and illiterates lead the intellectuals, knowledge is being extinguished with resulting cultural desertification. However, without a change in the despotic political system, and without a change in the political personality of the intellectuals, experts leading experts and educated people leading the educated could be even more frightening, and would result in extinguishing knowledge as before. The former use politics directly to extinguish knowledge, and the latter rely on political power to employ knowledge in extinguishing knowledge. Furthermore, since technocrats come from among intellectuals, they understand the inner world and the personal weaknesses of intellectuals. They know which intellectuals and which knowledge constitutes the greatest danger to despotic rule; therefore, in the process of abusing intellectuals, they are able to find the crucial points and the main points for attack using their expert background knowledge to consolidate individual political authority.

The political prerogative of educated people to do in educated people appears not only in the person of educated people who have become officials, but also in the inequality of political power between party members and non-party members in intellectual circles. China's irrational social structure, in which there are dual laws (party law and constitutional law) with party law being above constitutional law, enables intellectuals who are party members to use their political party prerogatives to do in people. The desire of nonparty intellectuals to

enter the party provides the best stage for party member intellectuals to exhibit the dignity, the sanctity, and the authority of the party and to inflict great damage on dissidents. "So you would like to join the party? Then, kneel down and earnestly accept the party's teachings." "So you would like to join the party? Then worship me like a benefactor." "So you would like to join the party? Then you cannot just get in through the front door; you have to go through the back door as well." You have to make reports time after time, reveal your innermost thoughts time after time, be investigated time after time, submit to training time after time, and invite people for dinner and present them with gifts time after time. How many intellectuals have sold their character and their honor, and sold their learning and truth for the sake of getting into the party? Under these unequal conditions, party member intellectuals can both give vent to their personal hatreds and gain material economic and academic benefits. A party branch secretary with extremely low professional qualifications can sign his name to a very learned academic article without writing a word of it, becoming one of its authors under the fine-sounding name of "cooperative research." Actually, he uses his political prerogatives to steal an academic reputation. If the writer is a nonparty activist who is applying to join the party, so much the better. He will not only not refuse the party member's collaboration, but will take the initiative in asking him to collaborate, and place his name ahead of his own. Use of one's party prerogatives to get academic standing, and sale of one's academic achievements in exchange for a party card and political prerogatives are deals that are by no means uncommon in China's intellectual circles. Situations involving distinguished intellectuals trading their academic positions for positions as members of the CPPCC [Chinese People's Political Consultative Conference] and the NPC [National People's Congress] all constitute the sale of academic credentials for political power. I used to be frequently at a loss to understand how nonparty intellectuals could debase themselves in this way and stick out their necks to allow others to bully them while constantly acceding. As a result of this thinking, I came to understand that the party is a symbol of privilege. When one enters the party, he or she has prerogatives. One is less put upon, and can put upon others. In other words, in a political system in which the party's power is supreme, if a person wants to have power, he or she must join the party, and look at everything through the party's eyes. He must use political methods to deal with everything. When even study and research serve the goals of the party and the revolution, what methods cannot be used in intellectual circles? The jockeying for position, and the undercutting of each other that goes on among those within the same field in intellectual circles, political tactics being frequently employed, are also due to the political personality of China's intellectuals. In the course of numerous political campaigns, China's intellectuals have learned to become sharp-eyed and clear-headed. They know that in a country in which political value is higher than everything, political extinction is

tantamount to an individual's complete extinction. Consequently, use of political tactics to get rid of dissidents and hard heads is the most effective way of fixing someone. Not only does this put one's adversary in mortal danger, but it earns political capital for oneself. In China, the intellectual world knows everything about the techniques used in political forum to scramble for power and profit.

3. The jockeying for power within intellectual circles in China today also shows up in factional strife in which people consort together to form cabals. This can also be traced to the same origins as the factionalism that exists in political life. It is closely linked to it. Although China has always had a so-called tradition of "scholars tending to scorn each other," the wrangling and forming of cliques among educated people in ancient times rarely had the same flavor as the political infighting of contemporary China. The cliques that ancient educated people formed had a scholarly congeniality and a chivalrous spirit. Rarely was there a political power background behind "making friends by one's writing." However, beginning during the 1930's and particularly after 1949, most of the factional fights in the intellectual world were political in nature. Every faction had the backing of some political power, and the goals of struggle were also political in nature. The frequent and ruthless political struggles were often conducted on the cultural stage. Generally speaking, the factional struggles in contemporary intellectual circles are the aftermath of three periods of time.

A. A continuation into the present of the internecine factional strife of the League of Leftwing Writers during the 1930's and 1940's, as well as the factional fighting of the Yanan period in the 1940's. The most representative example is the fight between the "masses literature faction" represented by Lu Xun, Feng Xuefeng, and Hu Feng and "national defense literature" represented by "the four fellows" (namely Zhou Yang, Xia Yan, Tian Han, and Yang Hansheng). Although these fights had a political character of scrambling for power and profit, inasmuch as the CPC had yet to achieve dominance over the entire country at that time, it did not use political power to punish its adversaries. The rancor between the two factions did not disappear after 1949. The CPC's seizure of power enabled Zhou Yang to become the most authoritative interpreter of Mao Zedong Thought on literature and art. He used political campaigns and the power that came from Mao Zedong to deal severely with dissidents. During the "anti-Hu Feng," and the "anti-rightism" political campaigns, not only did Zhou Yang overturn Hu Feng, Feng Xuefeng, and Ding Ling, but he also stigmatized numerous other cultural figures as "rightists." As a result, during the first Writers Congress following the Cultural Revolution, Zhou Yang came close to losing the election because of the political excesses of the 1950's and 1960's. I imagine that Zhou Yang's repentance during his declining years stemmed from his having been taught a lesson during the Cultural Revolution. Yao Wenyuan and others used Zhou Yang's

fight with Lu Xun to overthrow Zhou Yang on the grounds that those who opposed Lu Xun were counter-revolutionary. However, his repentance could not erase his exploits during the "antirightist" campaign. After the Cultural Revolution, following the rehabilitation of Ding Ling, who represented the "rightist" writers, this factional fight that began in modern times continued on to the reform period. One very important reason why Ding Ling wanted to take an active stand during the campaign to "eradicate spiritual pollution" was as follows: One of the targets of the campaign to "eradicate spiritual pollution" was Zhou Yang. Because of his reappraisal of the "dissidents" issue, Zhou Yang became an unnamed target of criticism of party heavyweights like Hu Qiaomu. This was a theatrical scene. Zhou Yang, who himself had played the part of a party heavyweight was beaten by party heavyweights in both the Cultural Revolution and the campaign to eradicate spiritual pollution.

B. The second period for the formation of factions was during the antirightist campaign. After the Cultural Revolution, rightist cultural figures once more saw the light of day, and naturally they desired revenge. Their experiences as fellow sufferers commiserating with each other impelled them to flock together. After the Cultural Revolution, rightists like Wang Meng [3769 5536], Deng Youmei [6772 0645 2734], and Cong Weixi used the political power of the reform faction in political circles to topple the likes of He Jingzhi [6320 2417 0037], who had been a much celebrated poet during the 1950's and the 1960's, and to seize control of executive power in China's literary forum. However, He Jingzhi and others used the political power of the conservative faction in political circles to launch a counteroffensive during the campaign to eradicate spiritual pollution and during the antiliberalization campaign. They hoped to take over power in the Writers Association, which was now in the hands of the rightist group. Even today, it is still difficult to see which of these two factions will win decisively. However, the trend suggests that the power of the rightist group will hold sway in China's contemporary literary forum. Middle-aged Wang Meng-style intellectuals have formed a rather firm new stratum of cultural bigwigs. Their elimination of dissidents has been much more refined than that of their predecessors. Instead of mobilizing people for large-scale criticism, they employ silence and indifference, allowing them to wipe themselves out. As Wang Meng said in a speech, rapid heating means rapid cooling, and rapid growth means rapid decay. This is called "cold processing." Obviously, they summarized the lessons of experience of numerous political campaigns and modern psychology, because in Chinese cultural circles, criticism amounts to helping people become famous. The more the criticism, the better known, and the more the criticism, the greater the social influence. Nevertheless, there are some new leading lights in cultural circles who cannot stand this. They want to criticize without naming names, particularly

unfilial sons like the writer of this article who will not cater to these new bigwigs (most of whom are young people).

The attitude of the new bigwigs is rather comical. They do not want to engage in an open polemic in order to maintain the air and the dignity of great masters, and they are also unwilling to have their own theories and position challenged. On the other hand, they cannot bear not to vent their feelings somewhat, so they have resorted to the formula of not naming names. Actually, a normal academic debate has to be completely open; one cannot equivocate and be ambiguous. My style has always been to name names in academic debate, but Wang Meng, Li Zehou [2621 3419 0624], and Liu Zaifu [0491 0375 1788] always demonstrate a bigwig posture of disdain, directing attacks against people without naming names. They make no academic refutations, but simply keep on criticizing people for "not being very qualified, but damning everything," and "wanting to rely on bombastic language and extreme points of view to increase their name recognition." Normal academic contention should be free from all personal attacks, yet well-known people in Chinese cultural circles are extraordinarily adept at making personal attacks. (This issue will be treated more fully subsequently.) It may be said openly that the objects of their unnamed attacks are probably writers. I raise this problem not because of personal resentment, but because it is an issue that has a bearing on the building of a normal order in Chinese cultural circles. (Actually, except for the public criticism of my articles, I have had very little to do with noted persons in Chinese cultural circles, much less have I formed resentment as a result of private contacts with them. I have never met Wang Meng, Li Zehou, and Liu Xinwu, and I have only met Liu Zaifu several times under overt circumstances. I talked with him only in a cursory way.) Gathered from their unnamed criticism of me, they lack the fair state of mind of noted authors and scholars engaged in academic contention; instead they have the condescending attitude of politicians. Thus, ensuring equality and fairness in academic contention requires a halt to all political arrogance. In academic contention, everyone is equal without distinction for the high and the low, the noble or the common. Titles like minister, agency director, and association director have nothing to do with academic contention. Official positions may confer power and position, but they do not confer truth on people. In China, however, matters are quite the other way around. The bigger the official, the greater his academic authority. This is heartless political castration of knowledge.

(To be continued.)

Impact of Sociocultural Environment on Students

91CM0089A Beijing JIAOYU YANJIU
[EDUCATIONAL RESEARCH] in Chinese No 10,
Oct 90 pp 34-40, 72

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Zhiyi (1728 1807 0034), and Bi Jieguang (3968 3381 0342) of the Propaganda Department of the CPC Central Committee and the Educational Theory Research Department of the Central Educational and Scientific Study Institute: "A Survey of the 'Impact of Sociocultural Activities on Moral Education in Middle Schools'"]

[Excerpt] [passage omitted] Starting mainly with the after-class and after-school cultural activities of middle school students in urban areas, this survey studies the impact of movies, TV, radio, books, periodicals, music and videotapes, cultural facilities, and family culture on middle school students and the situation, experience, and problems faced by schools and relevant departments in educating middle school students. The survey also offers opinions and suggestions on how to strengthen and improve work in this field. The survey covers 13 cities: Beijing, Tianjin, Shanghai, Shenyang, Qingdao, Xiamen, Guangzhou, Wuhan, Chengdu, Xian, Zhengzhou, Nanjing, and Guiyang. The survey was conducted using the multilevel method (major and general schools, ordinary and vocational middle schools, and high and middle schools) and random sampling. In addition, the survey also used the methods of interviews and symposiums to conduct further investigation of teachers, students, and relevant cultural departments. Students returned 11,647 copies of inquiries, teachers returned 1,000, parents returned 1,100, and principals returned 200. This article is the preliminary analysis of the findings of the survey.

I. Sociocultural Activities Become an Increasingly Important Factor in Affecting the Moral Education of Middle Schools

Since the Third Plenary Session of the 11th CPC Central Committee, China's socialist modernization has made great achievements. Along with political and economic development, cultural undertakings have also made new progress. A great many books, magazines, and newspapers of all descriptions have been published. TV, radio, and other mass media and music and videotapes have developed rapidly. Nearly 200 new movies (including translated films) are released every year. Videotape viewing rooms, amusement parks, video arcades, music teahouses, dance halls, and other cultural and recreation facilities have mushroomed. The growing prosperity of the cultural market is changing the face of sociocultural life, producing a great impact on the after-class and after-school cultural activities of middle school students, and raising new tasks for moral education in middle schools. Such changes and influence are demonstrated mainly in the following three areas:

A. The cultural life of middle school students has been enriched in content and changed in form and characteristics.

In the past few years, the new cultural and recreational forms of TV's, tape recorders, VCR's, video arcades, and amusement parks have had great appeal for middle school students. Surveys and statistics show that middle school students have on the average 1.81 hours of leisure

time a day on normal days and 3.76 hours on Sundays and holidays. Middle school students have been exposed to a broader range of sociocultural activities. When asked where they frequently go after school (each person named three places), 41.5 percent said bookstands or bookstores, 49.9 percent said classmates' houses, 29.5 percent said movie theaters, 26.5 percent named such cultural facilities as museums, libraries, and youth palaces, 8 percent said video arcades, and 32.3 percent said loafing. Middle school students used to participate in cultural activities mainly as groups, but now they do it mainly as individuals or small groups. Such activities used to be held mainly at schools. Now they have moved out of the schools and into homes. Mass media have become the main channel for middle school students to receive sociocultural information. About 57.4 percent of teachers think that students are exposed to sociocultural information mainly through the channel of mass media such as TV, radio, newspapers, and periodicals, followed by classmates, teachers, and parents in that order. Complex and fast-changing social information is transmitted directly and rapidly to students through various channels. Among all channels the one that has the greatest impact is TV. Of all middle school students surveyed, 92.2 percent have TV's and 11.8 percent have VCR's at home. The average TV viewing time per day is 1.05 hours. About 83.1 percent of students watch TV every day, and 22 percent watch more than two hours a day. The content of TV programs covers all fields of society, including politics, economy, and culture. Besides, the audiovisual feature and images of TV have a greater impact on and appeal to middle school students. Entertainment programs on TV have an even broader influence. Many of the favorite books and songs of middle school students are introduced first on TV and then become popular.

B. Negative factors stand out in social culture and are not conducive to strengthening moral education.

In the past few years, although there have been some outstanding ideological products in our society, the total number of such products is limited, and products that are suitable for middle school students are even more limited. For instance, of all music and videotapes that are oriented toward juveniles, only 5 to 10 percent are really educational and cater directly to juveniles. Very few books and TV programs are good and suitable for middle school students to read and watch. In the survey, 46.9 percent of middle school students thought that the number of literary and art works and cultural activities that were suitable for them were too limited and could not meet their needs; 43.2 percent thought that there were many of them, but not many were good; and only 6.3 percent thought that "they were satisfactory." On the other hand, in the past few years, because the ideological trend of bourgeois liberalization was rampant and ideological and political work was lax, a serious situation in which the good lost to the evil has appeared in our sociocultural environment. Many books that advocate bourgeois liberalization, attack the party's leadership,

condemn socialist systems, and negate our national history and culture have been openly published and distributed. The publication of a large number of books that indiscriminately and uncritically introduce Western bourgeois ideas and theories has actually played a role in advocating bourgeois concepts of world outlook, politics, history, arts, ethics, and value. Vulgar and bad-taste works have spread unchecked. Even many reading materials and music and videotapes advocating pornography, obscenity, murder, violence, and feudal superstition have appeared. All these are opposed to the socialist nature of our culture and the demands of socialist spiritual construction. These negative factors have exerted extensive influence and formed a sociocultural environment and cultural atmosphere that are very bad to the sound development of middle school students. According to a survey of Zhengzhou in July 1989, the city had a total of 756 bookstores and bookstands owned by collectives and individuals, and over 600 books were published. Of these, 198 or 33.3 percent are romantic novels; 110 or 18.3 percent are depictions of murders and fights and in bad taste; only 101 or 16.7 percent are somewhat educational. Many such stands are located near schools. Another of our surveys of principals shows that 69.7 percent of principals think that the sociocultural environment of school zones is unhealthy and that the existence of many bookstands, markets, and video arcades around schools has created great interference to the moral education in schools. Only 5 percent think that the environment around their schools is pretty good. About 72 percent of teachers think that the negative influence of society is great, that it often offsets the positive education of schools, and that it is the main problem they encountered in guiding students' cultural activities.

After the "pornography cleanup" in August 1989, the sociocultural environment began to turn in a favorable direction. But this was only a beginning. About 59 percent of teachers think that the sociocultural environment made a turn for the better after rectification of the cultural market, but the chaotic situation of cultural market has not been fundamentally improved. What is noteworthy is that 14.1 percent of teachers say that the rectification was successful temporarily and some unhealthy phenomena have resurfaced now that things are somewhat relaxed.

C. The moral education of schools cannot adjust to the changed sociocultural environment.

Although the negative influence of social culture is prominent, most schools have done a great deal of work to strengthen political, ideological, and moral education and guide students' cultural life. However, judged from the situation as a whole, schools' moral education has failed to play a proper role. On the one hand, extracurricular activities organized by schools are rather dull and cannot attract students. About 46.6 percent of students seldom or basically never participate in school-organized activities. On the other hand, students' cultural guidance is insufficient. According to a survey of students, only

25.3 percent of students think that school guidance helps them a lot, 47.2 percent think that it is somewhat helpful, and 27.5 percent think that it does not help much. The findings of the teachers' survey are generally the same. Only 15 percent think that school guidance is very effective, 54 percent think that teachers can provide positive guidance but the effect is limited, and 22.4 percent think that they can deal with the negative influence of social culture only in a passive manner. The main cause of this situation is the general climate of the whole sociocultural environment. But there are also many problems that must be resolved in school education. Judged from the angle of sociocultural life, there are generally in the following few areas:

1. Many schools do not pay enough, or any, attention to guiding students' cultural life. Only 15 percent of students think that schools provide regular guidance for students to participate in cultural life, 36.5 percent think that schools basically do not provide such guidance, and 48.5 percent think that schools provide such guidance occasionally. Under this situation, schools do not fully understand changes in sociocultural life and lack in-depth and systematic understanding and study of students' participation in cultural activities including the content and method of activities, psychological and behavioral characteristics, and ideological and political influence. Because of this, school-organized activities do not appeal to students and cannot easily provide timely and concrete guidance for students in regard to sociocultural life. As a result, their actual results are limited.

2. Schools lack facilities for cultural activities and are in need of necessary material support. Most middle school principals surveyed said that funds to carry out cultural activities and to purchase books account for a very small part of education funds which are extremely tight. They said there is no special allocation for such purpose, funds to purchase books are limited, and it is very difficult to carry out quality cultural activities. Under the condition of limited funds, most schools pay attention only to improving classroom teaching conditions, not to the building of campus culture. On the other hand, society's cultural organizations that serve middle school students, such as libraries, museums, and youth palaces are limited in number and lack preferential treatment for middle school students. It is very difficult for schools to use these organizations to organize students' cultural activities. In a few cities, libraries, youth palaces, and science and technology museums also sponsor such activities as billiard games, video shows, and dances, failing to cooperate with schools and exert positive influence on middle school students in regard to cultural guidance.

3. Teachers have problems. Influenced by the negative factors of social culture, students are confused. They have many questions and need teachers to guide and assist them in many areas. However many teachers cannot satisfy such needs. In the inquiry, only 5.5 percent of teachers think that they can provide satisfactory answers to students' questions on social culture,

40.8 percent think that they can basically answer such questions, 38.2 percent think that they can answer only some of these questions, and 11.8 percent think that they basically cannot or fail to answer such questions. The main cause of the appearance of this phenomenon is that teachers are busy with their work and life. They do not have enough time to replenish and update knowledge, still less can they voluntarily study and understand the situation of students' cultural life and strengthen guidance for such purpose. Compared to students' contacts with social culture, only 19.5 percent of teachers think that they know more than students do, 7.4 percent think that they know about the same as students, 19.9 percent think that they have fewer contacts with social culture than students, 50 percent think that they have more contacts than students in some areas and fewer in others. It is naturally very hard for teachers to teach students if they themselves do not fully understand either.

II. Middle School Students' After-School Cultural Life

We investigated middle school students' after-school cultural life in terms of outside reading, movies, TV, music appreciation, cultural entertainment, pocket money expenses, and family culture.

A. Outside Reading

This is an important element of middle school students' after-school cultural life. Some 61.5 percent of students use their pocket money first to buy books and periodicals. Middle school students read on the average of about two books of outside reading per month. Their favorite books and periodicals are listed as follows (everyone named three books) in the order of popularity: comprehensive books and periodicals such as DUZHE WENZHAI [READERS DIGEST] (34.8 percent), science fiction (32.9 percent), martial arts stories of Hong Kong and Taiwan (29.5 percent), famous Chinese classical literature (29.5 percent), literary and art works on juvenile themes (24.3 percent), romantic novels of Hong Kong and Taiwan (16.3 percent), books and periodicals on science and technology (11.4 percent), and in the last place new literary works published in Mainland China (6.4 percent). This shows that middle school students are more interested in reading books and periodicals that integrate knowledge, fun, and entertainment as well as mystical, thrilling, and exciting literary and art works.

The first five of 15 listed most popular books are: *Biography of a Vulture-Shooting Hero* by Jin Yong [6855 1661] (64.2 percent), *If Tomorrow Comes* by American writer Sydney Sheldon (45.6 percent), *The Ugly Chinese* by Bo Yang [2672 2799] (36.8 percent), *Outside the Window* by Qiong Yao [8825 3852] (33.3 percent), and *Prince on a White Horse* by Cen Kailun [1478 0418 0243] (28.4 percent). Literary and art works on juvenile themes—Xiao Fuxing's [5135 1788 5281] *Immature Love* and Meng Xiaoyun's [1322 2556 0061] *Confused Age*—ranked 11 and 15 respectively.

Under the question "which books do you find most rewarding," most students wrote down romantic and

martial arts novels by Hong Kong and Taiwan writers. Some middle school students even wrote that they love to read all books like these. Middle school students, especially boys, are particularly interested in martial arts novels.

B. Movies and TV

Watching TV is a major part of after-school cultural life for middle school students. More than half of middle school students' leisure time is spent watching TV. Due to the popularization of TV's and the growing number of VCR's, the impact of TV is rising. Two things are obvious in movie and TV viewing. One is that the content tends to be popular and entertaining. Among all movies, TV programs, and videotapes, thrillers and mysteries are most popular (65.1 percent), followed by martial arts movies (47 percent), cartoons (40.9 percent), and films adapted from famous books (36.1 percent). Films dealing with the issue of reform are least welcomed. Only 5.4 percent of students like them. The other is that students are particularly interested in movies and TV programs made in foreign countries, Hong Kong, and Taiwan.

About 47.4 percent and 44.9 percent of middle school students like translated films and films made in Hong Kong and Taiwan. Only 6.6 percent like domestic films.

C. Music Appreciation

The majority of middle school students like to listen to music. With regard to broadcast programs, 52.9 percent of students like music programs, which rank first among all programs. The hot spot of music appreciation for middle school students is popular music and folk songs (65.3 percent of students like them). As many as 76.9 percent of students regularly listen to popular modern music, whereas regular national and classical music listeners account for only 12.3 and 22.7 percent, respectively. Another 30 percent of students regularly listen to foreign music. Songs sung by Hong Kong and Taiwan singers and folk songs of Hong Kong and Taiwan are especially loved by middle school students. According to a survey of 234 ninth graders in six schools in Chongwen District of Beijing Municipality, 84.5 percent like Hong Kong and Taiwan singers. Of the first 30 favorite songs named by students, 20 songs or 66.7 percent are Hong Kong and Taiwan products.

As for why middle school students like to sing popular songs, 40.1 percent say because they can help express various inner feelings, 45.8 percent say because they are simple and easy to sing, and 6.5 percent say because everybody else likes it.

D. Cultural Recreation

Cultural recreation facilities such as video-viewing rooms, video arcades, and rollerskating rinks are very appealing to middle school students. Many individually owned video arcade owners make special efforts to open shops around schools to attract middle school students.

Some 44.6 percent of middle school students in Jingan District of Shanghai Municipality frequent clubs and video arcades. In some cities in open areas such as Guangzhou, middle school students also participate in different forms of activities where they sing to prerecorded accompanying music. Some even get on stage to show off their talents and special skills and "demonstrate their own value." About 12.8 percent of students think that there is no need to forbid middle school students from entering adult facilities such as dance halls and barrooms. Some 5.9 percent of students say that, out of rebelliousness, they especially want to go places where they are not allowed to go.

E. Petty Cash Expenses

Middle school students' pocket money averages about 11 yuan a month. Of this, about 5 yuan or 45.5 percent is used to buy books and periodicals. The survey of students in five cities—Shanghai, Guangzhou, Wuhan, Shenyang, and Chengdu—shows that the highest monthly petty cash expense is over 100 yuan and that a few students spend as much as 200 yuan. The first five items for which petty cash is used are (everyone named three): buying books and periodicals (61.5 percent), buying snacks (40.8 percent), going to movies (34.6 percent), meeting with classmates (33.6 percent), and buying gifts for classmates (26.3 percent). In addition to meeting study, recreational, and living needs, the increase in expense for socializing with classmates is most prominent. This shows that, influenced by the commodity economy, middle school students pay attention to personal relations and tend to express personal friendship and feelings in the form of material things. There is a growing interest and concern over changes in clothing fashions among middle school students. Many students often "follow the fashion," go window-shopping on busy streets where market changes are reflected immediately, and regard it as one of their recreational activities.

F. Family Culture

A survey of 1,100 students' families shows that 507 parents or 45.7 percent have college or vocational school education, 299 parents or 26.9 percent have high school education, and 304 parents or 27.4 percent have middle school education. About 33.2 percent of families own about 100 books and 50.3 percent own over 200 books. Most of them are professional and reference books. Very few books are on family education and juveniles. Some 10.7 percent of students' families have no books at all. Only 13.2 percent of parents like to read books and periodicals on educating children. Major family cultural activities (everyone named three items) are watching TV (79.7 percent), reading books and newspapers (58.7 percent), listening to music (49.6 percent), chatting (44.6 percent), and playing mahjong and poker (14.2 percent). A large percentage of parents either do not pay enough attention to their children's education or use improper educational methods. Only 39 percent of parents ordinarily can keep in touch with schools and teachers, and

55 percent of parents limit students' book and periodical reading and TV viewing time and demand that they take study seriously. Some parents use erroneous concepts and methods to educate their children. Some are simply rough. Some let their children bet in mahjong games. Only 23.9 percent of middle school students are willing to discuss with their parents such sociocultural phenomena as books, periodicals, movies, TV, culture, and entertainment. This is also an important reason why middle school students like to meet with classmates or participate in activities in sociocultural facilities.

Middle school students' after-school cultural life shows that their cultural life has also witnessed drastic changes under the influence of sociocultural environment. The method of cultural entertainment has changed from mostly appreciation to both appreciation and self-entertainment. The content of reading, appreciation, and cultural recreation activities has changed from a balance of refined and popular tastes to popular culture whose main purpose is to entertain and pass time. Instead of participating in cultural activities designed for juveniles, middle school students now like to join adults in a large number of cultural activities. Due to the influence of ideological trends in society, the hot spots and tendency of middle school students' after-school cultural activities have changed. Whatever is popular in society is popular among middle school students. The trends are basically the same.

III. The Influence of Sociocultural Life on the Ideological and Moral Quality of Middle School Students

Having broad contact with social culture can help the sound development of middle school students' bodies and minds. First, it can further enrich the after-school cultural life of middle school students. By participating in varied and colorful cultural activities after completing their homework, middle school students can enrich their lives, get positive rest, and receive cultural nurture and influence. Literary and art works reflecting the main theme of socialism in particular have played an active role in helping them establish a correct political orientation as well as scientific outlook on the world and life, and form fine moral and mental quality. Second, it can help middle school students activate their minds and broaden their horizons. The diversity of sources and channels of sociocultural information and the variety of choices of cultural activities enable middle school students to consider issues from a wider angle, like from all of China or the world. The development of modern communications devices has shortened the distance between social culture and middle school students. They are taking the idea of socializing more and more seriously. Students who like to participate in social practice (accounting for 31.1 percent of students who regularly participate in school-sponsored extracurricular activities) have come to consider participating in sociocultural activities as their window to understanding society.

Their ability to handle and adapt to sociocultural activities has increased and their competitive and independent concepts are gradually increasing too. Third, it can increase knowledge. Middle school is an important period for learning. Thanks to the rapid development of communications devices and information carriers such as TV, radio, newspapers, books, and periodicals, important domestic and foreign events can be transmitted in the twinkling of an eye. The development of science and technology and the increasing speed of cultural dissemination and knowledge updates enable middle school students to continue to absorb new nourishment from cultural life, learn more outside of books, increase their understanding of objective and subjective world, and raise their aesthetic interest and art appreciation ability.

But, due to the prominent negative phenomenon in the cultural life of society and schools' failure to strengthen moral education in response to this situation, sociocultural life has exerted in many areas great negative influence on middle school students and has been harmful to them in regard to developing them into new socialist men with ideals, morality, culture, and discipline. Currently, some such problems of middle school students are that they lack lofty ideals, have a weakened sense of motherland and nation, a confused sense of values, lowered moral standards, and lack good habits of behavior. The causes of such problems vary, but the influence of negative and unhealthy social culture is an important factor. Analyzed from the angle of middle school students' after-school cultural life, these negative influences are manifested mainly in the following areas:

A. Hong Kong, Taiwan, and Western cultures have become hot spots and caused ideological confusion.

The survey shows that in the area of outside reading, movies, and TV, Hong Kong, Taiwan, and Western cultures have become hot spots for middle school students. Middle school students' cultural activities lean toward Hong Kong, Taiwan, and Western cultures. This is linked to the growing influence of imported culture in sociocultural life. For instance, the number of domestic fiction videos released in the past few years is greater than that of foreign videos. The former account for two-thirds and the latter for one-third. But the figures for distribution are just the opposite. Foreign videos account for two-thirds and domestic videos, one-third. So is the case with the distribution of music tapes. We do not reject all cultures of Hong Kong, Taiwan, and the West. But because these cultures are in essence bourgeois ideology, they are very likely to cause ideological confusion when the cultural choices of middle school students who have no distinguishing and critical ability lean too much toward such cultures.

1. Many middle school students have deviated ideologically from the correct political direction.

Many middle school students said that they like Hong Kong, Taiwan, and Western works mainly because "they are true and natural." In fact, middle school students'

cultural value preference generally remains at the level of the pursuit of external forms of sensations, excitement, and entertainment and of self-expression and self-display. Their understanding of foreign culture is very shallow. Besides, they do not really understand nor do they have the actual experience of living in Hong Kong, Taiwan, and the West. Without analyzing, they thought that the phenomena of social life they saw in the works of Hong Kong, Taiwan, and the West are in-depth, truthful reflections. So they make simple comparisons between such phenomena and negative and undesirable phenomena at home and then conclude erroneously that China is inferior to foreign countries and that socialism is inferior to capitalism. This impression is then repeatedly confirmed by the erroneous guidance of public opinion under the influence of the ideological trend of bourgeois liberalization, thus increasing the influence of Hong Kong, Taiwan, and Western cultures.

2. Many middle school students are indifferent toward and ignore national culture, and their national pride and self-esteem have declined.

Middle school students are blind, shallow, and susceptible to influence when it comes to accepting foreign cultures. Due to these characteristics and the influence of the ideological trend of national nihilism, they have begun to ignore our national culture while leaning toward foreign culture. Among the 15 popular books listed in the inquiry, five of the six least-read books are domestic products. The number of students who like domestic films has declined gradually. Some major middle schools surveyed do not even have one student who likes domestic films. Only 6.4 percent like literary and art works published at home. This cultural mentality has made middle school students' problem of a weakening sense of motherland and nation more prominent. According to a survey of 745 students in major schools in Beijing, 21 percent of students said that their "favorite nation" is not China. This is a very noteworthy issue.

3. The concept of value is confused.

Under the condition of the open-door policy, the influence of Western values is growing among middle school students. Middle school students come into contact with a large amount of Hong Kong, Taiwan, and Western culture, but they do not have necessary guidance and analysis. This is bound to worsen and increase the confusion and leaning tendency of their value concepts. In the inquiry, 9.1 percent of middle school students think that the concepts of the "young generation in developed countries who are self-centered, pay no attention to the world around them, give no consideration to the future of their countries, are indifferent toward ideals, and emphasize practical matters and the concept of enjoyment in life" are more advanced than China's traditional concepts; 39 percent think that such concepts have strong points and weaknesses and that they should conduct concrete analysis; 20 percent think that, although they are not desirable, many people believe in such concepts in real life; 6.7 percent think that the

concepts of Chinese and Western youth will become identical in the long run; 11.9 percent say they have not thought about it; and only 13.1 percent clearly say that they are an expression of moral decline and that we should not learn from them. This shows that very few middle school students can correctly understand and voluntarily resist the self-centered values of Western bourgeoisie. The majority of middle school students are ideologically confused. On this issue, the facilitator's role of Hong Kong, Taiwan, and Western cultures must not be ignored.

B. Cultural appreciation is sliding toward lower standards. This is not conducive to students trying to foster lofty ideals and fine morality.

Middle school happens to be a critical period for seeking role models and establishing ideals and beliefs. In recent years the number of literary and art works depicting martial art and detective stories and poor-taste movies and music and videotapes has increased. For instance, of 158 fiction films made in China in 1988, 48 are about martial arts and detective stories, accounting for 30 percent. This figure does not include horror and adventure films. This situation has caused the cultural appreciation standards of middle school students to slide. Martial arts, romantic stories, and poor-taste popular songs fill up the heads of many middle school students. Video games and billiards occupy too much of their spare time. Things that encourage people to make progress and are good for both body and mind such as revolutionary heroism and patriotism have been pushed aside. Middle school students' enthusiasm for learning science is also declining. Only 11.3 and 14.9 percent of students like scientific and technological books and periodicals and products. Growing middle school students lack a dominant guiding spiritual force to encourage them to form lofty social ideals. This is very harmful to their trying to become new men with "four qualifications." Most of the 200 middle school principals surveyed think that weak political ideals are a noteworthy issue in the tendency of students' ideological and moral development in recent years.

The slide in cultural appreciation standards is likely to cause students to deviate from the socialist orientation in moral concepts and behavior. As far as middle school students are concerned, martial arts, romantic novels, and poor-taste popular songs are aimed to satisfy entertainment needs. These works advocate mostly feudal and bourgeois ideas such as the code of brotherhood, self-centeredness, fighting, vengeance, and that love is everything. Because middle school students are not discriminating, they are quick to admire, sympathize with, and even imitate characters in these works. Some even identify themselves with characters and plots in such works, stress "the code of brotherhood," or start immature romantic affairs. Loneliness, depression, low spirits, and irritable feelings played up in such works can also easily affect middle school students.

A direct consequence of the slide in cultural appreciation standards is that some students indulge in pleasure, are low-spirited, and hate to study. This survey shows that Zhengzhou, Wuhan, and Xian have strongly stated that excessive video arcades and billiard houses have become a disaster. In front of a middle school in Zhengzhou are as many as five video arcades. Due to overindulgence in such activities, some students are in no mood to study. When their grades decline, they resort to such activities to look for excitement to fill the void, thus forming a vicious cycle. Many middle school students ignore and even give up study because of this. Cases like this have occurred everywhere. A few students even take the road of crime.

The slide in cultural appreciation also affects students' aesthetic interests. A large number of works produced in a rough and slipshod manner, as well as vulgar cultural activities, which cause middle school students to be content with sensual excitement, are not conducive to improving their sense of artistic appreciation and aesthetic interest. If aesthetic interest is not high, it will often result in a decline in their study, moral values, and the quality of their mind.

C. The mentality of high consumption and the pursuit of material pleasure dilute the spirit of hard work.

Middle school students are not independent financially, so they ought to be frugal and thrifty. But due to the influence of commercialized cultural life and high consumption in society, the phenomenon of high consumption has occurred in the personal contacts and cultural life of some middle school students. Their pocket money is used mainly to satisfy their needs for entertainment and buying snacks and gifts. They worship the practice of ostentation and extravagance. For instance, 33.2 percent of students think that when they give presents to classmates, they "should not be too concerned about how much they spend if it is for their close friends;" and 9.6 percent say that they dare not spare money for fear of being called "stingy." Controlled by such thinking, the spirit of hard work has been diluted and hedonism and the spirit of material benefits have developed. Many middle school students envy those singers who have become popular on one song and the opportunity of making big money by singing "jail songs" while in prison. In order to satisfy their need to make money, some students start a "renting market" to charge "rent" for study notes and stationery borrowed by classmates. Before they participate in any labor, they first ask if there is any compensation. A few even resort to cheating to get money and engage in impermissible behavior.

D. The open and secret distribution of books, periodicals, and music and videotapes that advocate pornography, obscenity, murder, violence, and feudal superstition has had detrimental effects on middle school students.

According to the survey, 14.6 percent of middle school students have been exposed to such books and periodicals and music and videotapes, and 84.6 percent of teachers think that more than a third of middle school students have been affected to different degrees by this type of culture. In recent years, the juvenile crime rate has been rising and the age of juvenile criminals has been declining. Statistics of the departments concerned show that 60 percent of juvenile crime is linked to publications advocating pornography, murder, and violence. Among the cases of distributing obscene music and videotapes discovered in the past few years in Beijing Municipality, many involve students. Of 3,900 violators who have been punished, about 260 are under the age of 17, accounting for 6.7 percent. After reading and viewing obscene books, periodicals and videotapes, even some "three-excellent" students and student leaders are unable to extricate themselves and turn to committing crimes. The main cause of crimes and mistakes committed by all 57 working students of the Zhengzhou Work-Study School and 97 juvenile delinquents of the Henan Provincial Juvenile Reformatory are linked to the pernicious influence of pornographic culture.

We must not underestimate the influence on students of reading materials that advocate feudal superstition. Some 4.5 percent of students believe that fortunetelling and palm reading are "accurate," 42.2 percent sometimes believe in it and sometime do not, and 6 percent "see fortunetellers regularly" or "whenever there is a major event, like an exam." This is very detrimental to their establishing a dialectical materialistic world outlook.

Sociocultural life has always had a major impact on moral education in middle schools. When sociocultural life is dominated by positive factors, it is in tune with school education and facilitates and benefits the moral education work of middle schools. When negative factors stand out and even when the good loses ground to the evil, it is set against school education, interferes with and weakens the positive effect of school moral education, and causes great difficulties for the moral education of middle schools. Whether positive or negative effects dominate, the depth and range of the impact of sociocultural life on middle school students must not be ignored. As society develops, sociocultural information will be transmitted faster and faster. The direct and indirect impact it caused on the political attitudes, life and world outlook, and moral quality of middle school students will become more prominent and obvious. The task of creating a fine sociocultural environment for the sound development of young people and of strengthening positive guidance for sociocultural life will become more and more important.

IV. The Characteristics of the Impact of Sociocultural Life on Middle School Students

A. The actual impact of sociocultural life has dominant and recessive characters:

The so-called dominant character refers to effects that are relatively direct, noticeable, and quick. For instance, good literary and art works have a direct and positive effect that can inspire and encourage people. Unhealthy literary and art works have the detrimental effect of corroding and poisoning young people. Compared to the impact of healthy culture, the impact of unhealthy culture has a more dominant character. After reading martial arts stories, some middle school students began to study martial arts and followed the "code of brotherhood." After reading romantic novels, some became the characters in the book and got involved in immature romantic affairs. The masked criminals of a robbery in a certain city turned out to be a few middle school students. When asked about motives, they said that they learned it from movies. Because middle school students are immature physically and mentally, they are easily influenced. Such influence of the dominant character is very serious.

The so-called recessive character refers to effects that do not show directly or immediately. Instead, through the gradual process of screening, absorbing, and accumulating sociocultural information, such impact will affect the formation of world and life outlook and the development of ideology and moral character. Dominant influence may not last very long, but recessive influence lasts longer. For instance, the survey shows that Western, Hong Kong, and Taiwan cultures have become the hot spots for middle school students' after-school activities and that some students worship foreign things and feel that their own nation is inferior. None of this can be corrected without a large amount of educational work.

The impact of sociocultural life has both dominant and recessive characters. Whether the impact of a specific cultural phenomenon is seen as dominant or recessive is determined by a variety of factors. It depends on the content of sociocultural life and how powerful the effect of overall sociocultural environment. It also depends on the situation of local environment and the ability of individual middle school students to distinguish, judge, avoid, and tolerate. This needs concrete analysis and specific guidance.

B. The sources and channels of the impact of sociocultural life vary in direction and form.

The development of the modern means of mass communications and cultural markets has made it possible for sociocultural information to influence middle school students through multiple channels in many areas.

The diversification of sociocultural information has stimulated the minds of middle school students and provided them with more opportunities to choose and compare. This has also made it more difficult for schools to give moral education. Radio and TV transmit large amounts of information every day. The variety of books has doubled and redoubled. Bookstands can be found everywhere on the street. Middle school students have

more choices and freedom in cultural activities. This situation has created new problems for moral education in middle schools.

First, the screening process has been weakened. Repeated screening is the only way to eliminate the dross and the fake and retain the essence and the true from the enormous amount of complex information. In a relatively closed environment, information has to be transmitted through different levels and screened many times before it reaches middle school students. In an open environment, information in many areas is transmitted directly to educators and students. Information screening and feedback has to be done by middle school students themselves in many cases. When social practice is unhealthy and the students' ability to distinguish and their self-control are weak, they tend to make mistakes in selecting information. Efforts must be made to strengthen guidance to prevent and reduce negative effects.

Second, control has been weakened. The diversity of sociocultural information and the large number of negative factors in the overall environment tend to cause middle school students' extracurricular activities to deviate from schools' training goals. The survey shows that the broadening range of students' sociocultural life often results in the weakening of school control in education. Because of this, all areas of society need to vigorously cooperate with schools to do a good job in education.

C. The nature of levels and differences vary in the impact on sociocultural life.

Different areas have different economic and cultural conditions and impacts. Take Guangzhou and Zhengzhou for instance. Both are under the influence of Hong Kong and Taiwan culture. But because Guangzhou is closer to Hong Kong, 60 percent of middle school students in Guangzhou like Hong Kong and Taiwan movies while only 35.4 percent in Zhengzhou do so.

Different cultural levels have different cultural choices.

Middle school students with different levels of family culture make different cultural choices. We compiled some classified statistics on the occupations of parents from 8,516 copies of student inquiries. We compared students from 2,789 general cadre families; 1,442 teacher, scientific and technological, and medical families; and 2,915 worker families on their choices of books, movies, TV programs, music entertainment, and other cultural activities. We found that there are obvious differences in the content of their choices of books, movies, and TV programs; that there are some differences in the kinds and locations of their choices of recreational activities; and that there is no obvious difference in the choice of music.

Students of different age groups have different cultural choices. Middle school students prefer cultural activities that are more entertaining. Detective, adventure, and

martial arts movies, recreational books and periodicals, and video games are all their favorites. They pay more attention to the form, feeling, and external content of cultural activities. Because of their age, school education is easy for them to accept. High school students are more attracted to content with higher and deeper cultural levels such as famous Chinese and foreign literature. As they grow older, their self-consciousness increases, they like to criticize things, and they cannot easily accept school education. For instance, in leisure time, 12.67 percent of middle school students and only 6.3 percent of high school students frequent video arcades. Some 13 percent of high school students like to read famous Chinese classical literature while 27.1 percent of middle school students like to do so. Some 14.2 percent of high school students and 7.3 percent of middle school students think that there is no need to keep middle school students from going to adult cultural facilities.

Students of different sexes have different cultural choices. According to the survey of Jingan District of Shanghai Municipality, in the choice of books, a characteristic of middle school students' reading is that "boys love martial arts and girls love romance." Boys are much more interested in books on science, technology, and knowledge than girls; girls are much more interested in recreational books and periodicals than boys. In the choice of movies and TV programs, boys prefer martial arts films whereas girls prefer dramas and films with juvenile themes. There is no obvious difference in the choice of music.

D. Middle school students' sociocultural life is infectious.

Information transmission and interaction among students play an extremely important role in the sociocultural life of middle school students. They are receivers as well as transmitters of sociocultural information. The fact that some books, periodicals, and music and videotapes have been distributed and become hot spots so fast is inseparable from the exchanges among themselves. The survey shows that classmates' houses rank first among all places where middle school students often visit in their leisure time. A fairly large part of middle school students' pocket money is spent to have meetings with classmates and buy birthday presents for classmates. Confiding in close friends is a common phenomenon among middle school students.

According to our survey of 264 middle school students in three middle schools in Xicheng District, Beijing Municipality, 244 students belong respectively to 74 different free student groups, accounting for 92 percent of the total number of students surveyed. Cultural life is the main content of their contacts, activities, and discussions.

Cultural exchange and information transmission among middle school students take on the following few characteristics: 1) Transmission is fast. 2) The follow-the-crowd behavior shows that students of the same age

group have a very strong sense of cultural identity and faith in each other. 3) The main content of transmission is nonmainstream culture. Some even circulate some pornographic books and manuscripts. 4) Middle school students socialize within free students groups. Sometimes such groups include students from different classes, schools, and even districts.

Cultural exchange and information circulation among middle school students play an irreplaceable role. Efforts should be made to encourage positive aspects and strengthen control and offer guidance for negative aspects. [passage omitted]

He Jingzhi Stresses Positive Reportage Literature

91CM0093B Beijing GUANGMING RIBAO in Chinese
2 Nov 90 p 1

[Article by Cao Jijun (2580 4949 6511): "Unified Thinking, Enthusiastic Spirit, Growing Ranks, and Flourishing Creativity—The Association Convenes the National Reportage Literature Creation Conference"]

[Text] The largest reportage literature creation conference in recent years was held in Beijing from 30 October to 1 November. This conference was mainly to implement the "grasp reform with one hand and prosperity with the other" policy. It was under the joint auspices of WENYI BAO, RENMIN WENXUE [PEOPLE'S LITERATURE], and ZHONGLIU [MIDSTREAM] sponsored by the China Writers Association. Over 100 reportage literature writers, critics, and literary press authorities from Beijing and some other cities and provinces attended the conference. The closing address was given by He Jingzhi, deputy director of the Central Propaganda Department and acting minister of culture.

He reviewed the reportage literature creations of the new period with the conferees and recognized that a great many good works of reportage literature, which are wholeheartedly enthusiastic toward socialism, have appeared in the new period, an achievement witnessed by all. Reportage literature has concerned itself throughout the new period with the development of Chinese socialism and reform and opening up. It has sung the praises of the large number of patriots and outstanding socialist developers and has had a positive effect on the political and economic life of society. At the same time, the mistakes and problems in reportage literature in the new period also are obvious, and we should learn from them.

The future of reportage literature was one of the hot topics of the conference. The delegates generally recognized that reportage literature must approach life and go into life. Feng Mu [7458 3668] pointed out that reportage literature and China's revolutionary cause are related to one another. As a special literary form it can only be a product directly condensed from life. Old writer Xu Chi [1776 6688] used his personal experience of persisting in going deeply into life at the advanced age of 76 to appeal to the writers to approach life and go into

life, and catch up with our times and write reportage literature for our times. By talking freely with the conferees he came to the conclusion that only by going into life and going among the masses and dedicating ourselves to developing socialism and reform and opening up can we write outstanding works that truly reflect our times and conform to the needs of the people.

The delegates gave their full approval to works of reportage literature appearing in the last several years such as *Wuji Zhi Lu*, *Hun Xi Qingshan*, and *Tade Zhongguo Xin* [*Her Chinese Heart*]. They consider them as setting an example in some respects for future reportage literature creations. This is especially true of these works that sing the praises of advanced people who selflessly dedicate themselves to socialism, while by no means avoiding contradictions. But, because the writers are filled with ardent love and confidence in socialism, the works give people the strength to go on with high spirits. So, if we only observe and understand our present changing times with an advanced world view and always bear in mind that we are engaged in socialist literature, there will be no problem about how to reflect the bright and the dark sides.

The conference also discussed the true nature of reportage literature and the responsibilities of reportage literature writers. Old writer Wei Wei [7614 1550] expressed the hope that reportage literature writers would inherit its revolutionary traditions so that reportage literature can fully play its combative role and they can use their pens with the greatest enthusiasm to safeguard socialist development. Old writer Liu Baiyu [0491 4101 5038] repeatedly admonished everyone that only with deep love for the people, the party, and the state can they see China's daily changes. He expressed the hope that writers would inherit the Lu Xun spirit of leading people toward a prosperous and strong socialist China.

He Jingzhi pointed out in his speech that the policy of "unified thinking, enthusiastic spirit, growing ranks, and flourishing creativity" proposed for this conference is applicable in all areas of literature and art. He affirmed the successes of reportage literature in the new period and pointed out that it is the most prominent of any category of literature and is the vanguard of socialist literature in the new period. Although problems also are quite prevalent, in the new period, reportage literature is still the socialist literature most in step with the spirit of the times.

He Jingzhi expressed hope for continued implementation of the policy to grasp reform with one hand and prosperity with the other and continuing to do a good job of political reform on the literature and art front, vigorous improvement in ideological development, increased unity, growing ranks, and literary and art creations that will cause socialism to prosper in every way possible.

Malqinhu [3854 2139 3084 1133], permanent member of the Secretariat of the Association, presided over the conference and at the conclusion announced that the China Writers Association has decided to select the outstanding reportage literature piece for 1990 in next spring's awards activities. Lu Guang [7627 0342], Jiang Zengpei [3068 2582 1014], Hasiwula [0761 2448 3527 2139], Liang Guangdi [2733 0342 4574], Huang Gang [7806 6921], Su Fangxue [5685 2455 1331], Li Lingxiu [2621 3781 0208], Jiang Wei [5592 1550], Zheng Bonong [6774 0130 6593], and Meng Weizai [1322 0251 0762] were among those addressing the conference. Attendees also included Ma Feng [7456 3536], Li Ruobing [2621 5387 0393], Zhang Fan [1728 1581], Zhang Changhai [1728 1603 3189], Ge Luo [5514 3157], Zhang Qie [1728 6951], Deng Youmei [6772 0645 2734], Shi Yongxiang [2457 0516 4382], Cheng Shuzhen [4453 2885 2830], Jin Zhe [6855 0772], Xu Feiguang [1776 7236 0342], Li Zhun [2621 0402], Ding Zhenhai [0002 2182 3189], Zhou Ming [0719 2494], Wu Taichang [0702 3141 2490], and Han Ruiting [7281 3843 0080].

Need To Explain Socialism to Peasants Emphasized

91CM0093A Beijing GUANGMING RIBAO in Chinese
5 Nov 90 p 1

[Article by Hu Lihua (5170 4539 5478) and Yang Mingxuan (2799 2494 6693): "Villages on the Outskirts of Xiangfan Have Begun Investigation and Education on Socialist Ideology: Clearly Explaining Socialist Theory Closely Related to the Issues Concerning Peasants"]

[Text] How is the present stage of rural socialist ideological education progressing? The approach on the outskirts of Xiangfan [5980 2868], Hubei is to bring the peasants to an understanding of the basic characteristics of socialism by resolving their doubts and uncertainties, evoking and nurturing a love of socialism in them, and making them enthusiastic about working energetically for socialism. It is specifically displayed in the following ways:

First, helping peasants to come to a clear understanding of the relationship between land ownership and administrative authority and an awareness of maintaining the socialist collective ownership system. The collective land ownership system is the essential determinant of socialism. After the contract responsibility system linked to output was implemented, quite a few peasants here confused contracting land with private ownership of land and freedom to subcontract land, and from time to time without authorization took soil, built houses, baked bricks, or built tombs on contract land or left it idle. In light of this situation, party organizations at every level began, by bringing the peasants to analyze the relationship between land ownership and administrative authority, to make it clear that the rural contract responsibility system linked to output in no way changes the

nature of the socialist system of public ownership of the means of production. When the land is contracted to households, it is still collectively owned. The peasants are only authorized to do their utmost to do a good job of planting crops and not to make unauthorized decisions to put it to other uses. As a result of beginning socialist education, some townships have used specific rules based on the rural regulations as well as restraints on the people stipulated in the "Agrarian Law" to standardize the behavior of the peasants and safeguard the collective ownership of land which is an essential institution of socialism.

Second, bringing the peasants to a clear understanding of the relationship between the planned economy and market regulations and persevering in developing the socialist planned commodity economy. After land contracting, family administration had a prominent effect and the small-producer mentality of some of the peasants grew, thus weakening the planning concept, and it became the fad to "plant whatever you want" and "plant whatever makes money." Implementation of planned plantings of such things as vegetables often created headaches for grassroots cadres. With socialist ideological education, district party committees enlisted cadres from their offices to go down to the countryside to imbue the peasants with the theory of the socialist planned commodity economy, conduct special discussions, and inspire them to analyze the dangers of blind production and come to a clear understanding of the importance of joining the market with planning. The peasant masses learned from the study sessions that complying with the state plan in planting is an essential method to ensure a balance of supply and demand for the whole society, avoid waste, and put production on a favorable cycle. When vegetables are a commodity it will not do to have too many or too few. They cannot be unplanned. Planned production then reflects the peasants' understanding of socialism and has a bearing on whether the vegetables produced can make money or not. Because the vegetable growers had improved their understanding of socialism, this spring the plan proposed by the district government to guarantee 30,000 mu for the planting of five main varieties of vegetables was smoothly implemented.

Third, bringing to the peasants a clear understanding of the relationship among state, collective, and individual profits and fostering in them a collectivist concept. In light of the lessened feeling of some peasants toward collectivism after the all-around contract system and the individualist behavior manifested in the cash contracts and turning over to the authorities what is left, party organizations at every level on the one hand made it clear to the peasants that unified planning with due consideration for the profits of the state, the collective, and the individual is necessary and, on the other hand, led the peasants to experience the superiority of the collective economy from the current situation. They conducted "recall, calculate, and consider" activities,

recalling what services the collectives have contributed to rural households since the all-around contract system, calculating how much the collectives have subsidized rural households, and considering whether the collective economy is superior or not. As a result of this recalling, calculating, and considering, the peasants recognize that "the individual is dependent on the collective and the collective economy is their support, and they cannot consider only their small family without considering the big family of the collective economy." The peasants' increased awareness caused the cash contracts and turning the rest over to the authorities to go very smoothly in this summer's harvest, and they completed their assignment ahead of time.

Fourth, helping the peasants to understand the relationship between permitting some people to get rich first and general prosperity, leading people to be mutually supportive and heading down the road to prosperity together. The district party committees discovered in their surveys that there were two types of ideological obstacles in dealing with getting rich first and general prosperity. One type is harboring doubts about the party's policy of allowing some people to get rich first and being overly cautious. A few of those who get rich first even "wash their hands of the evil practice." Another obstacle is that some people who care in the process of getting rich "sweep only the snow from in front of their own door and do not care about the frost on other people's tile." They get themselves so deeply into coveting money that they cannot climb out. Some even disregard law and discipline, morality, and conscience in their desire for money. In light of the different situations, district party organizations at every level conduct systematic instruction. While informing the peasants of the party's immutable policy of permitting some people to get rich first, they help the peasants to acquire the concept of general prosperity as the focal point, repeatedly explaining to the peasants that the goal of socialism is general prosperity, and inspiring those who get rich first to realize that their getting rich first comes from party policy and that after they are rich they cannot forget other people. In the district they also enlist advanced models to tour the entire district and give talks to help people get rich. Some rich households in relating their own experiences say that "now we understand that capitalism is everybody looking out for himself and people cheating other people. Socialism should be people helping people." They spontaneously formed over 70 "tilling assistance teams" and "groups to help the poor and assist those in difficulty." In a little over six months, they have accomplished more than 1,000 good deeds in all. Formerly, some rich households, without passing on their technology to outsiders, successively showed others the way to get rich. Now the moving phenomenon of the advanced leading the less advanced and the less advanced catching up with the advanced so that they can march down the road to enrichment together is occurring all over the district.

Law Adopted on Protecting Handicapped

OW0801215591 Beijing XINHUA Domestic Service
in Chinese 2125 GMT 7 Jan 91

[Text] Beijing, 8 Jan (XINHUA)—The 17th Session of the Seventh National People's Congress [NPC] Standing Committee recently adopted the "PRC Law for Protecting the Handicapped." For an interview on questions about this law, our reporter visited a responsible person of the Legislative Affairs Commission of the NPC Standing Committee the other day.

[XINHUA] What is the significance of formulating the Law for Protecting the Handicapped?

[Answer] It is estimated that there are 51.64 million handicapped persons in China, accounting for 4.9 percent of our total population according to a random survey conducted in 1987 on the national population of handicapped. Families with handicapped persons account for 18.1 percent of all families in the country. Therefore, the living conditions of the handicapped are a social problem not to be ignored because not only does it involve more than 50 million handicapped persons themselves, but it also has something to do with their families. It even has a bearing on the stability of society and development of the state. Since the founding of New China, especially after the Third Plenary Session of the 11th CPC Central Committee, fair progress has been made in the cause for protecting the handicapped thanks to the leadership and concern of the party and the government and support and help of society as a whole. However, problems still exist. Because of their handicaps and traditional prejudice, handicapped persons encounter more difficulties than ordinary persons in the aspects of education, labor, and daily life. Prejudices against and violation of their legal rights still occur sometimes in some places. It is of great necessity and significance for the state to formulate a special law to protect the legal rights of the handicapped, promote undertakings for the protection of the handicapped, and carry out the regulations of the Constitution regarding the state and the society helping and arranging for the handicapped citizens to work, live, receive education, and play their active role in socialist construction.

[XINHUA] What is the fundamental spirit of the Law for Protecting the Handicapped?

[Answer] As a citizen, handicapped persons enjoy equal rights as other citizens do in the aspects of political, economic, cultural, social, and family life. They are protected by law. It is necessary for the state to provide special support for them and actively develop undertakings for handicapped persons so as to attain the goal of protecting the rights of the handicapped by alleviating or eliminating the influence of their handicaps and outside obstacles. This is where the fundamental spirit of the law lies. Guided by this spirit, the law stipulates regulations governing such aspects as rehabilitation, education, employment, cultural life, welfare, and living conditions for the handicapped.

[XINHUA] How does the law stipulate education for the handicapped?

[Answer] Because of their handicaps and for historical reasons, handicapped persons in China have more difficulty getting an education than do ordinary people. Many of them are still illiterate. In order to promote education for the handicapped, the law, proceeding from the reality in China, stipulates that efforts should be made to popularize and upgrade education for the handicapped, with the principle of making it a key point in popularizing their education and emphasizing the development of compulsory education and professional and technical education. In terms of educational methods, general education will be integrated with special education. That is to say, those handicapped persons with an ability to receive ordinary education will be educated in ordinary schools. It is good for the growth of the handicapped to let them live and study with ordinary students. For those handicapped persons who do not have an ability to receive a general education, special educational organizations will provide them with educational opportunities.

In terms of admissions of handicapped students, one thing in particular is worth mentioning, that is, prejudice still exists in some places where qualified handicapped students are denied admission to schools. This is a practice that needs correction. To avoid this, the law clearly stipulates that ordinary primary and junior high schools must enroll handicapped children and youths capable of adapting to studying life and that ordinary high schools, secondary specialized schools, skilled worker schools, and institutions of higher learning must enroll handicapped students who meet the state standards for enrollment. Schools are not allowed to refuse enrollment on the basis of the students' physical conditions. For those schools that refuse to accept these students, parties concerned or their relatives or guardians can ask relevant departments for help and relevant departments should order those schools to enroll them.

[XINHUA] How does the law stipulate the work and employment of the handicapped?

[Answer] Except for those who completely lose their ability to work, handicapped persons are also creators of social material and cultural wealth. To solve the problem of work and employment for the handicapped not only concerns the resources and protection of the lives of great masses of the handicapped, but also is a guarantee of the right of handicapped persons to work, especially those who are able to engage in labor. The law stipulates that the state adopts a principle of combining a collective method with a decentralized one and creates conditions for the work and employment of the handicapped through various channels and in various forms. The principle must be accompanied by a preferential policy of supporting and protecting the work and employment of the handicapped.

The places where handicapped persons are gathered to work in a collective manner are welfare enterprises for the handicapped, organizations that are equipped with workshops, hospital facilities, and chiropractic clinics. The state carries out a policy of tax reductions or exemptions on welfare enterprises for the handicapped. In addition, the state will provide support to these enterprises in the areas of production, management, technology, funds, materials, and sites. Local people's governments and relevant departments at all levels should choose some products which are suitable for the work of the handicapped and give preferential arrangements for the production of welfare enterprises and gradually determine some products as special products to be manufactured only by these welfare enterprises.

More handicapped persons need arrangements to work in a decentralized manner. The law stipulates that organizations, groups, enterprises, and institutions, as well as collective economic organizations in urban and rural areas must provide employment for the handicapped in accordance with certain ratios and arrange proper work and positions for them. In setting quotas for employing workers and staff members, relevant departments of governments must set aside a certain number of jobs for the employment of the handicapped. Relevant units are not allowed to refuse to accept handicapped graduates of colleges and universities, secondary specialized schools, and skilled worker schools assigned to them by the state on the grounds of their physical condition. Those who are denied jobs are entitled to ask relevant departments for help and these departments should order the units to accept them. In addition, relevant departments of governments should encourage and help handicapped persons to voluntarily organize themselves to run businesses or even to run an individual business. For those handicapped persons who apply to engage in individually run industrial and commercial enterprises, relevant departments should issue them licenses in a preferential manner and give them special treatment in terms of sites and loans. Most handicapped persons in China live in rural areas. It is important to provide care and support to the productive labor of handicapped persons living in rural areas. The law stipulates that local people's governments at all levels and grassroots organs in rural areas should organize and help the handicapped persons living in rural areas to engage in farming, handicrafts, and productive labor of other forms. Relevant departments should provide help in the areas of production service, technical guidance, supply of means for agricultural production, purchase of agricultural and sideline products, and loans.

[XINHUA] Since the law concerns the interests of more than 50 million handicapped persons, how can we carry out this important law?

[Answer] First of all, governments, relevant departments, federations of disabled persons, and all quarters of society should adopt various forms to publicize the law in an earnest and extensive way; promote mutual

understanding and exchanges between handicapped persons and other citizens; make society as a whole understand, respect, care about, and help the handicapped and give support to undertakings to protect the handicapped; and make the handicapped carry forward the spirit of optimism and initiative and make contributions to socialist construction with self-respect, self-confidence, self-reliance, and independence.

Many quarters and departments involved in safeguarding legal rights of the handicapped and the development of undertakings protecting the handicapped. People's governments at all levels, especially relevant

departments such as civil affairs, public health service, education, labor, and culture must maintain close ties to the handicapped, listen to their opinions, and do a good job helping the handicapped by performing their respective duties.

We believe that, under the leadership of the party and the government and with a common effort by relevant governmental departments, all quarters of society, and the handicapped, undertakings to protect the handicapped in China will develop continuously and the handicapped will become an active force in our socialist construction.

Xinjiang MD Commander Explains Winter Conscription

91CM0167A Urumqi XINJIANG RIBAO in Chinese
8 Nov 90 p 1

[Article by staff reporter Nan Zhu (0589 3796): "Next Year's Conscription Will Take Place as Usual"—Interview With Xinjiang Military District Commander Gao Huanchang"; date, place not given]

[Text] This winter's military conscription is about to begin. People's opinions about it vary, and they are full of misgivings about why the season of conscription was changed to winter, whether the establishment of the armed forces will be expanded, and whether there will be no conscription next year because it will be an international "year of peace." For this reason, this reporter interviewed Lt Gen Gao Huanchang [7559 3562 2490], commander of the Xinjiang Military District [MD].

"The decision to change the season of conscription to winter was based on the actual situation in the armed forces and the localities." Gao Huanchang explained, "After two years of practice in spring conscription, the universal reaction both in and out of the armed forces was that the disadvantages of spring conscription outweigh its advantages. First, a recruit has to take two months of basic training before he can be posted to a company at the end of June, and this situation adversely affects the fulfillment by the armed forces of their training, construction, and production tasks in the first half of the year. Second, spring conscription was detrimental to grassroots management in the armed forces. Veterans about to be demobilized could not keep their minds on their tasks. Before the Spring Festival they took home leave and after it they were demobilized, a situation that added to the armed forces' expenditures. Third, local governments at all levels were busy with spring plowing and sowing and with the drawing up of plans for the whole year, and the amount of work they could devote to conscription was limited. Fourth, spring conscription was disadvantageous for improving the quality of recruit education. In a given year the students in high school had not yet been graduated; and the high school graduates of the previous year had either gone on to a higher school, been hired as workers, or been recruited as cadres, and thus the educational quality of the remaining graduates was fairly poor. Fifth, when a veteran returns to his locality, because a city's work quotas have not yet been sent to the lower level timely arrangements for his job placement cannot be made. In the first half of a year there are temporary shortages in agriculture, causing many difficulties in making arrangements for production and life. All of these reasons were behind the decision to reinstate winter conscription.

Gao Huanchang told this reporter that the two conscriptions—spring and winter—this year are entirely normal in conscription work and are absolutely not part of any expansion of the armed forces' establishment. The main reason for having an extra conscription this winter is its

advantage to the adjustment of the military personnel structure. If there were no conscription this winter and conscription were postponed until next winter, the armed forces would have one year's fewer personnel, and this situation would be bound to make their personnel structure inappropriate. It would also have an adverse effect on the armed forces' strategic training, on college and school enrollment, and on reenlistment of volunteers. He passed on to the people the information that the conscription and posting of recruits in this winter conscription would still be done in accordance with the principle of replenishing as many personnel as are demobilized, and that there is fundamentally no question of expanding the armed forces' establishment.

With regard to the statement that next year will be a "year of peace" and so there will be no conscription, he hoped, through this newspaper, to pass on to the masses of all nationalities and the youths subject to conscription the information that this statement was just a rumor. The State Council and the Central Military Commission have clearly stipulated that this winter's conscription will be a normal one carried out in accordance with the "Military Service Law."

Qinghai Prepares for Winter Conscription

91CM0167B Xining QINGHAI RIBAO in Chinese
8 Nov 90 p 1

[Article by staff reporter Zhang Jian (1728 0256): "Many New Characteristics in This Winter's Conscription"]

[Text] Yesterday afternoon the Propaganda Department of the provincial party committee and the Political Department of the provincial military district jointly held a news conference, at which they gave a briefing on the relevant policies and regulations on this winter's conscription and the specific measures taken by Qinghai Province to ensure the quality of military personnel.

To implement conscientiously and thoroughly the spirit of the central authorities' relevant instructions and focusing on the reality in Qinghai, the provincial government and provincial military district, after repeated investigations and studies, formulated and issued to lower levels the "Regulations on Correcting Unhealthy Tendencies in Conscription" and "Regulations on Ensuring the Quality of Military Personnel." These two sets of regulations will play a positive role in supervising and promoting conscription in Qinghai this winter. By 6 November the province, its autonomous prefectures (prefectures, cities), and counties had set up conscription leadership organizations, which held meetings, set tasks, formulated measures, and imposed demands, thereby completing all of the preparatory work.

Lu Puyang [4151 2528 7122], chief of staff of the provincial military district and director of the provincial Conscription Office, made a speech at the news conference. He said that some new situations and new characteristics have appeared in this year's winter conscription:

There is a prominent disparity between the few youths who are conscripted and the many youths of the right age who take the initiative to sign up to join the armed forces, and this disparity greatly increases the volume of conscription work. Thus we have a fairly large leeway for seeking quality amid quality and for selecting the best from the good and the ordinary. However, on the other hand, because of the restrictions on the number of those conscripted, a considerable part of the physically and politically qualified youths of the right age, in the end, cannot join the armed forces as active members. There are new standards in the physical examination qualifications, and stricter demands have been imposed on the examination. Beginning with this winter's conscription, venereal disease and AIDS have been added to the list of items to be tested for in the conscription physical examination; and in the visual examination the stricter, more scientific "Standard Logarithmic Visual Chart" is used for testing and calculating. First, quotas have been set to control the number of military personnel from cities and towns, and the educational requirement for them has been raised, thereby adding to the difficulty of conscription work. Second, the educational requirement for conscripting youths from nonagricultural registered permanent residences has been raised to that of a high school graduate. Third, the way of calculating the number of military personnel from cities and towns is not the same this winter as it was this spring. For this winter the state has stipulated that the military personnel from cities and towns should include nonagricultural youths conscripted from townships and towns on the first level. The conscription procedures are being constantly perfected, and they are having a positive effect on ensuring the quality of conscripts and correcting unhealthy tendencies. For this winter's conscription the Conscription Office of the Ministry of National Defense has decided to change the current "Registration Form for the Conscription of Citizens Into the Armed Forces" to the "Examination and Approval Certificate for the Conscription of Citizens Into the Armed Forces" and "Investigation Form for the Conscription of Citizens Into the Armed Forces," and the "Examination and Approval Certificate" does not come with a counterfoil. After the work of conscription is finished, all the counterfoils and the unused forms (including the invalid forms that have been filled out incorrectly) are to be sent to the provincial Conscription Office, where they are to be filed for future reference.

Gesangduojie [2706 2718 1122 2638], deputy director of the Propaganda Department of the provincial party committee, attended the news conference and made a statement calling on all places and all news units to do good propaganda work on this winter's conscription.

Gansu Telephone Conference on Conscription

91CM0167C Lanzhou GANSU RIBAO in Chinese
30 Nov 90 p 1

[Article by Feng Xingzhi (7458 5281 3112) and Li Zhengzhao (2621 2973 2507): "Make Strict Checks To Ensure Good Conscription Work From Start to Finish"]

[Text] Lanzhou—On 27 November the Conscription Leading Group of the provincial government held a telephone conference on conscription at which it circulated a notice on the situation in conscription in the province in the previous stage, and made specific demands on how to do this work well, from start to finish, in the next stage. Mu Yongji [4476 3057 0679], deputy head of the provincial Conscription Leading Group and vice governor, and Lan Zhongjie [5695 0112 2638], deputy head of the group and deputy commander of the provincial military district, attended the conference and made speeches.

In his speech Lan Zhongjie gave a positive assessment of the work in the previous stage, but he also drew attention to problems still existing in this work: Physical examinations are not strict, some units want an increase in the proportion of military personnel from cities and towns, and some individuals "open the back door" through various channels and join the armed forces from "strange places." He made five suggestions: First, we must deepen ideological consciousness, unflaggingly make the correction of unhealthy tendencies permeate conscription from start to finish, take effective measures, and "close the back door." The conscription and recruitment must be truly honest. Second, we must get a good grip on system building and strengthen internal restraining mechanisms. With regard to problems revealed in actual work, we must supplement and perfect rules and regulations, so that there are criteria for conduct and bases for inspection. Third, leaders must set an example by starting with themselves. Leaders at all levels should insist on principle, "not opening the back door and not allowing anyone in through the back door." No matter who it is or what his connections are, and no matter what department passes the word along or hands over a brief note to "take care of him," the man must not be permitted to join the armed forces if he is unqualified. Fourth, we must enhance "transparency" in conscription and strengthen its discipline and supervision and the masses' supervision of it. We must insist on making public the results of political investigations, reexaminations, and decisions on whom to conscript. We must insist on investigating and dealing with discipline problems in conscription. Fifth, we must make responsibilities clear, make strict checks on reexaminations and on

conscription decisions, uphold the principle of "making decisions on conscription in a selective, honest, collective, and public manner." Examination and approval procedures must be strict, and cases of "what one individual says counts" must be prevented.

In his speech Vice Governor Mu Yongji said that we must, in accordance with the orders on conscription issued by the State Council and the Central Military Commission, firmly control the proportion of military personnel conscripted from cities and towns, and not allow any deviation in this proportion. He stressed that, after this winter's conscription is finished, all relevant departments in the province must be organized to make inspections in all places, and, with regard to units and individuals who violate policy rules, we must conscientiously ascertain the facts and deal with them strictly.

Taking part in the conference were relevant leading comrades of the Propaganda Department of the provincial party committee; the province's Civil Affairs Department, Finance Department, Public Security Department, Public Health Department, and Economic Commission; and the provincial military district. Members of the conscription leading groups of all prefectures (autonomous prefectures, cities) listened in on the telephone conference.

People's Armed Police Stresses Internal Regulations

Meetings Held on Enforcement

*91CM0131A Beijing JIEFANGJUN BAO in Chinese
11 Nov 90 p 1*

[Article by correspondent Chen Shenggen (7115 3932 1649): "People's Armed Police Deeply and Solidly Implement Rules and Regulations"]

[Text] Beijing 10 November—The People's Armed Police on-site meeting that concluded today played a role in setting the direction and guiding the way for People's Armed Police implementation of new rules and regulations. Qiao Shi and Yang Baibing, who accompanied People's Armed Police Commander Zhou Yushu and Political Commissar Xu Shouzeng met this afternoon with delegates to the classic on-site demonstration meeting.

People's Armed Police on-site meetings about implementation of rules and regulations were convened by two commands, one in Beijing and the other in Tianjin. The on-site meetings were marked by realism and a lack of superficiality. Pilot project units from both commands conveyed the substance of People's Armed Police unit implementation of internal regulations, disciplinary regulations, formation regulations, military training regulations, weapons and equipment control regulations, organizational methods, implementation procedures, and standards to be attained. They employed military reviews, march-bys, inspections of police appearance and conduct, emergency meetings, and daily spot checks of vehicle lots. They inspected procedures for regularizing the war preparedness, training, work, and daily life of basic-level

units, and the management of vehicle lots, warehouses, and repair depots; and they also conducted demonstration exercises in one subject after another from the training of detachment leaders and agencies to teaching and demonstration exercises and training in programs, all actions being uniform, proficient, and standard. The delegates had a deep sense that these demonstrations were rich in substance, that they were presented in a direct manner, and that methods were concrete and realistic. They were both consistent with rules and regulations standards, and they also expressed the special needs of the People's Armed Police. In order to make implementation of rules and regulations more pertinent to the special needs of the People's Armed Police, attaining the goal of unifying thought, unifying standards, and unifying methods, People's Armed Police CPC Committees submitted various documents at the on-site meetings for the discussion of the delegates. These documents included "Decisions on Better People's Armed Police Management Education," "People's Armed Police Units Supplementary Provisions for Carrying Out Internal Regulations and Equipment Control Rules," and "Various Provisions Regarding the Military Training of People's Armed Police Units."

Leading comrades, including Luo Gan [5012 1626], Gu Linfang [7357 2651 2499], Zhou Wenyuan [0719 2429 0337], and Xu Sheng [6079 0524], also took part in the meetings. Deputy Chief of Staff He Qizong [0149 0366 1350] gave full endorsement to the on-site meetings on behalf of the Third Command. He said that both the PLA [People's Liberation Army] and the People's Armed Police are military forces under leadership of the CPC Central Committee and the Central Military Commission. They are governed by the same provisions for the building of their units. People's Armed Police units are highly dispersed and their duties are complex. This makes for substantial difficulties in the training and control of units. He hoped that People's Armed Police units will diligently implement the policies and principles of the of the Military Commission of the Central Committee for the building of forces during the new era, adhering to combat effectiveness as the standard, and taking regularized building as the focus, linking through implementation of rules and regulations, rigorous training, and strict administration to realities as they exist in the People's Armed Police. They should make painstaking efforts, protracted efforts, and arduous efforts to build the People's Armed Police into a strong combat force.

Editorial Praises Regulations

*91CM0131B Beijing JIEFANGJUN BAO in Chinese
11 Nov 90 p 1*

[Editorial: "Use Rules and Regulations To Regularize Building of People's Armed Police"]

[Text] Carrying forward the fine traditions of the People's Armed Police, and using the newly promulgated rules and regulations of the Central Committee's Military Commission to regularize the actions of People's Armed Police officers and men is an important indicator

of better regularized building of People's Armed Police unit and administration of units according to law.

The rules and regulations promulgated by the Central Military Commission are an affirmation in legal form of Central Committee and Central Military Commission guiding policies and principles for the building of the armed forces in a new era. Their focus is on the fostering and establishment of the concept that units must be absolutely subordinate to the leadership of the party. They are an important basis for the building of more modernized and more regularized revolutionary military forces, for improving units' combat capabilities, and for strict control of military forces. There is no doubt at all that implementation of rules and regulations by the People's Armed Police holds extremely important significance for maintaining the party's absolute leadership over the People's Armed Police and for preserving a high degree of stability and centralization of units for the improvement of combat capabilities.

Implementation of rules and regulations is also determined by the nature and duties of the People's Armed Police. The People's Armed Police is an important integral part of the nation's armed forces under absolute leadership of the party. It is an active service force that has the sacred duty of carrying out the safeguarding of national security, protecting social stability, and protecting the people's peaceful labor. Although the People's Armed Police differs from the PLA in its leadership system and the specific tasks for which it is responsible, its basic regulations and standards for building of units are the same as for the PLA. The CPC Central Committee and the Central Military Commission have pointed out many times that the People's Armed Police is a combat force, first of all. In the building and administration of the People's Armed Police, it is necessary to carry out resolutely the policies and principles, and the rules and regulations that apply to the building of the PLA. Practice has demonstrated that only because it has done a rather good job of enforcing PLA rules and regulations since its reformation, the People's Armed Police has been able to ensure a correct orientation in the building of its units for full completion of the glorious tasks that the party and people have conferred on it. The People's Armed Police must advance toward the goals of being more revolutionary, greater modernization, and greater regularization under the new circumstances, and adhere more to this point.

Naturally, the building of the People's Armed Police also has its own distinctive character. Therefore, when carrying out rules and regulations, it is necessary to proceed from realities as they exist in the People's Armed Police, linking actions closely to the special needs of the People's Armed Police in order to ensure even more solid results.

Military Urged To Put Party Spirit in Literature

91CM0132A Beijing JIEFANGJUN BAO in Chinese
14 Nov 90 p 3

[Article by Zheng Xianbin (6774 6343 2430), director, Political Department, Chengdu Military Region: "Uphold the Principle of Party Spirit in Military Literature"]

[Text] Reviewing the military literature written during the last few years, we see many new commendable achievements, and see that quite a few excellent works have been produced. However, due to the impact of a wave of ideas with bourgeois liberalization tendencies, some ideological errors and aberrations have occurred. One of the most conspicuous problems in this respect is that some of the authors show an indifference to the party concept, and that they do not stress the principle of party spirit. This is a very serious and important problem, and a problem that none of us military writers must treat lightly.

It is true that literary creation is capable of an abundance of forms and great variety, and we must not understand literature as something to be simplified, nor must we demand that all writers and artists uniformly adopt the standpoint of advanced elements of the proletariat. Those writers and creations that have not yet attained a high degree of Marxism but show progressive and patriotic ideas are equally needed by the people and should be welcomed and respected by us. However, with regard to military literature destined for the armed forces, and particularly with regard to literature by writers who are members of the Communist Party, we must indeed demand that they adhere to the principle of displaying proletarian party spirit. What is the principle of party spirit in literature? Comrade Mao Zedong once said, "We keep to the stand of the proletariat and of the masses. For members of the Communist Party that means that we keep to the stand of the party, the stand of party spirit, and party policies." For party members who are writers and members of the armed forces, keeping to the stand of the party, creating art, including literature, according to the demands of the party and submitting to education and supervision by the party constitute their personal political stand, which is determined by political exigencies and which is also their sacred duty that simply cannot be shirked.

During the last few years, some persons have energetically advocated a watering down of politics, and, to get away from politics, have advocated "divorcing" literature from politics and treating literature and politics as equals. Some persons have energetically advocated anti-realism, antihistoricity, antirationalism, and have proposed "filtering" social context, dimming the background of our times, and excluding from literature any of what they call "nonliterary elements." This kind of a mistaken, preposterous ideology had actually, for a time, captured quite a few positions in the literary field. While these conditions prevailed, the principle of party spirit in

literature was ignored, the socialist character of literature was watered down, and a flood of works was produced that were divorced from reality, divorced from politics, and divorced from the masses.

I believe that the majority of military writers are still imbued with a strong sense of party spirit, though there may exist some muddleheadedness which, to a large extent, can be attributed to the influx of erroneous trends of ideology. One of these, which had been of considerable influence, is the assumed "priority of popularity over party spirit." Some, with great fanfare, are propagating "heroic" personalities representative of the trend of bourgeois liberalization, flaunting the banner of "pleading for the people" but actually wantonly attacking the party and with extreme malice placing the party in a position of hostile confrontation with the people. Everybody knows that our party is the vanguard of the proletariat, works for the interests of the entire Chinese people, and is a party that wholeheartedly serves the people. Even though the party has traveled some tortuous roads and has sometimes erred in its work, nobody can deny the huge successes achieved by the whole people under the leadership of the party, especially the tremendous changes during the decade of reform and opening up to the outside world. Our literary creations must enlarge on these great "true facts of history," must firmly adhere to the unity of party spirit and popularity as the proper bent in literature, must keep to the stand of protecting the interests of the large majority, and must therefore also keep to the stand of party spirit. It is only by writing in this way that literature will reflect objectively and impartially our social life and the life of our armed forces. Our Army is the armed body of men and women, led by the party, who defend the country and the interests of the people. Reflecting the entirely new style and features of the Army and the accomplishment of building up our armed forces must be the fundamental demand of upholding the principle of party spirit in military literature. Of course, real life is extremely complex; it is not of a single color or tune. Our military literature must unquestionably express the joy, anger, sorrow, and happiness of our cadres and soldiers, must express their abundant inner world and the tribulations and hardships in their lives, but these expressions must not the least bit harm the image of the party and the leadership of the party. They must with ardor and sincerity paint a vivid picture of the true style and features of the party in the life of the Army, as the party cares for, cherishes, educates, and nurtures our present generation of military personnel. Safeguarding the principle of party spirit and safeguarding the interests of the party means also, in essence, safeguarding the interests of the people, which includes ourselves. We must be absolutely clear on this point.

Watering down the principle of party spirit in literature or even giving it up altogether will result in obscuring the ideological direction and losing the correct concept of literary value, and will lead to the loss of literary responsibility and of the writers' consciousness of their literary

mission. In an earlier era, some writings were full of a kind of pessimism and despair, full of negative moods that left people bewildered. Some comrades called it the "fin-de-siecle mood," but in essence it was the "loss of a spiritual foothold" as a consequence of having lost one's party concept. In this kind of a mental state, how can one start out from a positive side and influence people's thinking and feeling, their moral outlook, their spiritual condition, and, furthermore, influence their social practice and actual conduct, and their participation in the historical current of reform and opening up to the outside world? We have to realize that our literature is not a general literature but is socialist literature, proletarian literature. This class character and historical character make it imperative to demand of writers that they develop a sense of responsibility and a sense of their mission. It is precisely as Lenin said, proletarian literature "...does not serve well-fed noble ladies, does not serve the bored-to-death, frighteningly fat 'upper ten thousand,' but serves the millions of workers, the cream of the nation; it serves the strength of the country and the future of the country." As our literature is written amidst the actual development of present-day China, it must be written, as Comrade Deng Xiaoping expressed it, "using artistic forms that are true to life, vivid and moving, and that truly reflect the abundant social life, the intrinsic qualities of people in their various social relations, expressing the advanced demands of the times and the trend of historical development, writing that, furthermore, actively tries hard to educate the people in socialist thought and to imbue them with the spirit of active, enterprising endeavor and of hard work to make the country strong." This is the glorious mission of socialist literature, and that is also where the high degree of responsibility of socialist writers toward their society comes in. It stands to reason that writers of military literature should work along the same lines as all other writers and artists. In their own assiduous labor they should create piece after piece of works of excellence, with party spirit and popular character, with tendentiousness and truthfulness, and in ideological content and artistic character highly uniform and harmonious. They should mold one artistic model after the other, and fully endow them with flesh and blood and with distinctive individuality, to express the six spiritual qualities that Comrade Deng Xiaoping personally advocated, in order to spur on readers within and outside of the military and rouse them to action to fight with one heart and one mind for the construction of socialism with Chinese characteristics.

Upholding the principle of party spirit in military literature means, on the one hand, that writers who are party members must have a strong sense of responsibility to implement in their creations the guidance-style policies of the party. It means also that they must depict the image of the party, the image of party members, and the role of the party as important subject matter for their creations. Excellent literary pieces, such as *Party Membership Dues* by Wang Yuanjian [3769 1959 1017], *Garland at the Foot of the Mountain* by Li Cunbao [2621

1317 5508], *A Veteran Without Battle Exploits* by Xu Huaizhong [1776 2037 0022], and the stage play *A Sacred Flame on the Horizon*, display the high and upright character and the noble spirit of party members in our military at various times of history, qualities which have made our party and our party members cherished and revered models for the masses and for the youths of the country. In quite a number of literary works of the last few years, the image of the party member and of the party committee was not depicted as glorious and honorable. Whatever the subjective motivations of the writers may have been, these writings objectively pander to the needs of those who are in favor of bourgeois liberalization, who attack the leadership of the party, and who misrepresent the image of the party. We are definitely not proposing to present a falsely embellished picture of life or to cover up contradictions. The problem is merely that, in our lives, especially in the life of the military, it is a fact that a large number of our party members work conscientiously and courageously, set good examples, and must be credited with extensive meritorious services and great achievements, and that this fact is indeed the greatest "truth of life." It is regrettable that our writers have not yet thoroughly mastered and thoroughly tapped the rich mine of life experiences. Some comrades who overemphasize "self-expression" and "self-revelation" seem to be taking deep immersion in life as rather unimportant. This is definitely a major reason for the watered-down party concept in some of the recent writings and for the inability to accurately depict the image of the party.

Immersing oneself deeply in the realities of life and going deeply into the smaller units of the Army has all along been the excellent tradition of writers of military literature, as it also has been the important guarantee for adherence to the principle of party spirit in military literature. The present problem is not that these principles are not clear, but how to apply them in practice and to apply more energy in a deep penetration of life. As I understand it, some writers of military literature assume posts in the Army; they become chairmen or political commissars and taste what it is like to be "representative of the party." This enables them to become more familiar with life, to understand the true feelings and the inner world of present-day soldiers, a method that is indeed most conducive to the continued adherence to the principle of party spirit in military literature.

Unswerving adherence to the principle of party spirit in military literature must accept the guidance of Marxism. Giving up this principle will turn any talk of upholding the principle of party spirit into empty phrases. In the last few years, vilification of Marxism by international reactionary forces and the spread of a tide of bourgeois liberalization ideas inside China confused the minds of some people and even shook their faith in Marxism. In pondering the past we feel deeply that relaxation in the ideological-theoretical education of all ranks of writers and artists has made it impossible for them to create

works of excellence that reflect the main theme permeating the spirit of our time. Because of the special task they have taken on and the need to describe characteristics of their target subjects, it is particularly necessary for writers of military literature to expend ample time and energy on the study of Marxist literary theory, consciously allowing Marxist theory to guide their creations, in the hope that they will create works of excellence that are worthy of this great epoch and worthy of our great people's Army.

Rapid Reaction Unit Faces 'Arduous' Training

91CM0130B Beijing JIEFANGJUN BAO in Chinese
12 Nov 90 p 1

[Article by Qiu Limin (6726 0448 3046): "Fast! So Much Sweat Goes Into This One Word—Observing Training Exercises at a Certain Rapid Reaction Unit"]

[Text] The rapid reaction unit that this writer is visiting was established to meet the needs of future wars against aggression. It is a sharp sword capable of independently accomplishing every sort of special operational task under the most difficult conditions. In order to achieve this, the officers and men undergo arduous training.

On the morning of 16 October, clouds of dust swirl about the training grounds of the 2d Zhongdui, and amidst the wind and dust the soldiers assume the positions necessary to train for taking prisoners in hand-to-hand combat. Each man wears a fierce expression and glowers at his opponent as if he were an enemy. The men grasp and tumble. Fists fly, feet flash. Movements are fast, accurate, and fierce. They block knives, trip each other, and hold fast to each other's legs and throats. Tremendous bellows rise up all around. The 16 soldiers are practicing one of the basic movements in capturing prisoners—tumbling. They jump in the air and tumble forward, sideways, and backwards across the ground over and over again. While tumbling backwards, each man puts a training rifle beneath himself. Finding this writer very confused by this, zhongdui commander Zhu Hongcai [2612 3163 2088] explains that this is a way of forcing the men to control where their bodies fall. Whenever they execute an inaccurate move, they will fall upon a hard rifle. A soldier named Hong Wei tumbles sideways and lands hard upon his rifle, and his pants rip loudly. He lies prostrate on the ground. A moment later, Hong Wei picks himself up and continues practicing. During a rest period between practice sessions, this writer observed that every person's elbows, knees, and back had been badly scraped up.

If the scene on the training grounds caused an impression, the soldiers' activities away from the training grounds were equally unusual. This writer observed that the first order of business for each zhongdui after getting out of bed in the morning was to run 10 kilometers cross-country in full military garb. Before beginning training, they do stretching exercises, push-ups, knee-bends, and frog-style jumps. At noon they practice

boxing for half an hour. Before going to bed they strike sandbags and the walls with their heads, forearms, palms, fists, and legs 100 times, do horse-kick style brick hitting 100 times, and do 100 sit-ups. The men themselves said that, if they did not do this strenuous exercise on a regular basis or do this heavy training, it would be impossible for the unit to become a sharp sword in future combat.

A day's visit left this reporter with a very strong feeling that for these soldiers, a lot of sweat has gone into the word "fast."

Yang Baibing Stresses Grassroots Party Branches

91CM0130G Beijing JIEFANGJUN BAO in Chinese
22 Nov 90 p 1

[Article by Zhu Ruiqing (2612 3843 3237) and Li Jian (2621 0256): "At Conference on Strengthening Grassroots Party Branch Construction Throughout the Military, Yang Baibing Emphasizes Need Next Year To Strengthen Grassroots Party Branch Construction"]

[Text] This is the first time in many years that this sort of conference of the entire military met especially for the purpose of studying how to strengthen grassroots party branches. This is one of the deepest impressions that this reporter took away from the recent Conference on Strengthening Grassroots Party Branch Construction Throughout the Military. The Secretary General of the Central Military Commission [CMC], Yang Baibing, chaired this conference and delivered an important speech. Next year's political work throughout the entire military was also discussed and arranged.

This conference began 15 November and concluded on 20 November. Participants included the heads of the political departments and organization departments from every large unit. Deputy Directors Zhou Wenyuan [0719 2429 0337], Yu Yongbo [0060 3057 3134], and Li Jinai [2621 4949 5082] of the General Political Department attended the conference, as did some heads from second-level departments.

The ideology of concentrating on grassroots party branch construction was introduced by Secretary General Yang in a discussion late last July with leaders from the General Political Department and relevant departments in accordance with the guiding spirit set forth by the central party leadership. This guiding spirit calls for concentration of our efforts upon the task of constructing the party. Later, in accordance with the "Summary" and "Outline," Secretary General Yang set about strengthening political construction in the military in order to ensure that the military would always be politically qualified. He has also repeatedly stressed the need to strengthen grassroots party branch construction.

During the three months prior to the conference, the party committees and political organs in every unit carried out the instructions and spirit of the CMC and

the headquarters. They did a lot of research and experimental work connected with construction of grassroots party branches, and achieved many successes. From the presentations of 13 cadres at the conference, it appears that these successes have occurred primarily in four areas: 1) The military has resolutely adhered to the instructions of the CMC to unify ideology, and the major leaders have had a personal hand in this work. 2) We have organized our forces to penetrate deeply to the grassroots level and carry out research. Great efforts have been made to get a clear picture of the situation in grassroots party branches. Some large units have carried out several hundred investigations at the company level, even more than a thousand in some cases. 3) We have vigorously set about the task of experimental party branch rectification. There has been firm guidance, and more than 3,000 leaders and cadres at the level of regiment or above have participated in this experimental work. 4) We have paid attention to improving the work of party committees and organs and have strengthened research into and leadership of the construction of grassroots party branches. When some comrades reported on work in this area, Secretary General Yang commented favorably, saying, "We must grasp problems at both ends and go about construction from both angles." Party committees and political organs at every level must concentrate their resources on the effort to construct party branches, and they must pay attention to their own ideological and behavioral construction.

During his speech, General Secretary Yang reviewed our party's traditional emphasis upon construction of grassroots party organizations in the military, and he pointed out that everyone has always placed a high value upon the construction of grassroots party organizations in the military, from the older generation of proletarian revolutionaries, such as Mao Zedong and Deng Xiaoping, to our party's third-generation leadership group, of which comrade Jiang Zemin is the core. It is our glorious tradition to adhere to "constructing party branches at the company level," and to build a firm foundation for party organizations in the military. This is our military's political advantage. It is an important maxim upon which our military construction is founded. If we are to ensure that our military is under the absolute leadership of the party at all times, that the troops maintain a high level of combat readiness in all situations, and that they never see defeat, we absolutely must approach the issue from the grassroots level and work to construct party branches. We must make every "combat stronghold" and "forward position" in our party organizations in the military very strong, and we must ensure that the absolute leadership of the party over the military is exercised at the grassroots level.

What is the guiding ideology behind this emphasis on grassroots party branch construction? Secretary General Yang clearly stated that this guiding ideology requires that we base our actions upon the instructions of the

Central Military Commission to strengthen party construction, that we act in accordance with the requirements of the "Summary" and the "Outline," that we act in accordance with the principles of "focusing on construction, carrying out education, emphasizing assistance, and improving everything across the board," in order to strengthen the weak links in party branch construction; to strengthen the ability of party branches to resolve their own problems, as well as their ability to lead the comprehensive construction of grassroots units; to promote stable development of troops and completion of every sort of task; and to comprehensively improve the combat strength of the troops.

The conference adopted a method of research that combined high-level efforts with grassroots efforts, and came to the conclusion that if we are to carry out the work of party branch construction in a stable, dependable, and effective manner, there are several points we must take well in hand: We must focus on the most important points and concentrate on resolving the fact that organization is unsound, the system is not being carried out, and leadership has not been resolute. We must do a good job of educating people about the "absolute leadership of the party over the military," and we must also rigorously organize life, fundamentally raising the combat strength of grassroots party branches. We must preserve order in the work and lives of grassroots units, preserve a high level of stability among the troops, place high priority on strengthening party branch construction at the same time that we take into consideration the interests of all concerned, and coordinate effectively with other work. We must combine priority projects with regular construction and put more effort into basic work. We must look at the problems associated with party branch construction in order to analyze the shortcomings of party committees and organs, and we must do a good job of guiding grassroots party organ construction.

All of the comrades at the conference agreed that we must take aggressive action to carry out the requirements of the CMC leadership and strengthen grassroots party organization construction as we approach the 70th anniversary of the founding of the party.

Jiang Zemin Exhorts Armed Forces on Guangxi Border

91CM0134A Beijing JIEFANGJUN BAO in Chinese
27 Nov 90 p 1

[Article by Huang Qunwen (7806 5028 24290 and reporter Chen Xiaobu (7115 1420 0008): "Be Loyal, Honest Soldiers of the Party, Guardians of Steel on Our Southern Frontier—A Record of Chairman Jiang's Visit to Guangxi Armed Forces and Military Academy"]

[Text] In the middle and later parts of November, Jiang Zemin, general secretary of the CPC Central Committee and chairman of the Military Commission of the CPC Central Committee, visited the great "land of the eight cassia trees" [Guangxi] for an inspection of the Guangxi

Zhuang Autonomous Region. In every place he visited he went to see the army units stationed there and also the military academy to transmit greetings from the CPC Central Committee, the State Council, and the Central Military Commission, exhorting officers and men of the three services to improve the quality of military administration, to be loyal and sincere in their fervent love of the party, and to be guardians of steel in the firm defense of the southern frontier.

Guilin was Chairman Jiang's first stop on his tour of inspection of Guangxi. As soon as Chairman Jiang arrived in Guilin on 19 November, he went first, disregarding his travel fatigue, to visit the Guilin Military Academy in its setting of green trees, accompanied by Zhou Wenyuan, deputy director of the General Political Department of the PLA [People's Liberation Army]; Zhu Dunfa, commander of the Guangzhou Military Region; and political commissar Zhang Zhongxian. The somewhat over 1,000 students in training there passed in review, in square formations, before Chairman Jiang.

The neat formations, impressive in their vigor and strength, revealed the gratifying state of strict operations and effective training at the academy. As row after row of the square formations passed the reviewing stand, Ma, the political commissar of the academy, explained at Chairman Jiang's side that in recent years the academy has been implementing all policies of the CPC Central Committee and of the Central Military Commission concerning the operation of the academy and is steadfastly giving primary consideration to raising the political quality of the trainees, ensuring that they will be politically up to required standards. Efforts are directed toward nurturing comprehensively educated talents, who are developed morally, mentally, and physically. One hundred percent of the graduates of all previous years have obeyed assignment orders, and over 80 percent of them have requested to be posted to frontier defense or to island duties where they could render meritorious service and prove themselves. Chairman Jiang was very happy to hear this; he smiled and nodded again and again.

After reviewing the troops, Chairman Jiang delivered a speech. He said the military academy is the cradle in which talents are nurtured and shaped to become fit to accomplish the modernization of the Army, and it is hoped that everyone cherishes the opportunity for an education. After graduation, all trainees will return to the troops and, regardless of whether they will be military cadres or political cadres, all will pass through a period of rigorous training. Trainees will not only become proficient in military, cultural, and scientific subjects, but also, more importantly, will reach a higher level of ideological and political excellence. Chairman Jiang admonished the trainees that, on returning to the troops on after having graduated, they shall become an impelling force for the improvement of military and political quality and should become an additional force in the buildup of our military into a revolutionary Army which will be a modernized and regular force.

Baise and Longzhou are the places where 61 years ago Deng Xiaoping and other comrades led the Baise uprising and the Longzhou uprising and created the 7th and 8th Red Armies. On the afternoon of 20 November, as soon as Chairman Jiang stepped from the plane on his inspection tour of the Baise region, he drove more than 50 kilometers to the memorial of the Baise uprising. He laid a wreath at the memorial and bowed deeply three times, then he studied in detail the writing and carving on the memorial. Immediately thereafter, Chairman Jiang went to the former headquarters of the 7th Red Army. There he stood and looked fixedly at a large oil painting depicting Deng Xiaoping directing the Baise uprising, and also looked at the humbly equipped offices and living quarters occupied in those days by Deng Xiaoping and Zhang Yunyi [1728 0061 6654], while he most respectfully listened to the explanations of the guide.

At Baise, Chairman Jiang personally met with five veterans of the old Red Army who had taken part in the Baise uprising. Li Xianxian [7812 0341 6343], an 85-year-old veteran of the Red Army, shook Chairman Jiang's hand and was so moved that he could hardly utter a word. Chairman Jiang considerately asked him his age and enquired about his well-being and about his family. Old Red Army veteran Li Yucheng [2621 3768 2052] was hard of hearing; Chairman Jiang asked Zhao Fulin [6392 1381 2651], secretary of the CPC Committee of the Guangxi Zhuang Autonomous Region, who was also present, to sit next to him and to interpret loudly. Chairman Jiang said with deep emotion, "You have served the Chinese revolution with great distinction, a fact which will never be forgotten by the party, the Army, or the people." Chairman Jiang introduced deputy director Zhou Wenyuan and commander Zhu Dunfa to the veterans of the old Red Army and had a picture taken of the two men with the five veterans to remember the occasion. At the end of the interview, Chairman Jiang personally sent the veterans off, shook hands with each of them, and said: "Walk carefully, walk carefully."

On the morning of 24 November, Chairman Jiang inspected a certain Air Force unit and, after receiving reports from its leading officers, immediately gave a speech in which he pointed out that the various units should make efforts to raise the political quality to ensure that the party exercises absolute leadership and guidance in the military. Pilots must not only acquire technical skills, but must also step up political studies to become "both Red and expert" and must obey commands. After concluding the inspection of certain Air Force units, Chairman Jiang, without taking a rest, drove by car to the leading body of the Guangxi Military District. He personally met with 12 representative model heroes and had pictures taken with them, also with some of the leading cadres and government functionaries of the Guangxi Military District and Army groups, to remember the occasion.

Chairman Jiang also paid a special visit to the Hall of History and Fame of the Guangxi Military District and

looked with greatest interest at each of its pictures, photographs, and exhibits. When Wang Jingbo, political commissar of the Guangxi Military District, showed Chairman Jiang the battlefield poem written by Li Guangzhong [2621 1639 0022], who in those days served in one of the military units—a poem that was later circulated throughout the country: "The loss of my single person may contribute to the well-being of 1 billion"—Chairman Jiang nodded repeatedly in appreciation. When he saw the photo of Comrade Deng Xiaoping meeting "scout hero" Long Zhiyong [7127 1807 0516], he stopped, moved closer, and looked at it for quite a while. When he showed particular interest in the picture of a certain house, Commissar Wang explained: To solve the problem of providing schools for the children of cadres serving in the border defense forces, the sum of over 100,000 yuan was allocated for the building of a house of several stories in Nanning to serve as dormitory, and one cadre was also particularly appointed to manage it. Chairman Jiang approvingly said, "Good, that gives the cadres serving in the border defense forces additional peace of mind."

After listening to the report by Wen Guoqing [2429 0948 1987], commander of the Guangxi Military District, Chairman Jiang gave an important speech in which he highly praised the officers and men of the Guangxi border defense in their fight in defense of our borders, unafraid of difficulties and hardships, and courageously ready for self-sacrifice, and he particularly emphasized the problem of enhancing party building. He pointed out that the Chinese PLA is an army under the absolute leadership and guidance of the CPC; it is truly the people's own army, which makes it fundamentally different from Western bourgeois armies. Our party is armed with the weapon of Marxism; it is the core of the firm leadership in the Chinese people's construction of socialism with Chinese characteristics. Next year, the 70th anniversary of the birth of the party, we shall propose a strengthening of party building, which will be of extremely important significance. One important point in party building among the military will be to lay a firm foundation by "building up party branches at the company level." Chairman Jiang said that one must check erroneous ideas in matters of party building at the very outset and observe any slight clue which may indicate coming trouble. One must relate ideological-political work to the realities, and must present principles in a form which the soldiers will be willing to accept and which will be easily acceptable. An earnest effort must be made against corrosion and infiltration, and the foundation must be firmly laid for a real wall of steel and iron. At the same time, one must effectively tackle two ends of the issue. One end is the revolutionized structuring of government organs and strengthening of the unity in the leadership teams. The other end is the effective buildup of party branches, creating a truly firm battle fortress. Chairman Jiang expressed the ardent expectation that all officers and men clearly recognize the important strategic position of Guangxi. They should always bear in mind that it is their sacred mission to

guard the frontier, they should respect the customs of the minority ethnic groups, effectively support the government and cherish the people, and strengthen the solidarity between the military and the government and between the military and the people. They shall carry forward the longstanding excellent tradition of having the military and the people of every ethnic group share the same fate and they shall conduct themselves as if heart were linked to heart. On this piece of land on our southern border, with its glorious tradition of revolutionary struggle, they shall

devote their energy, working together with the people of Guangxi, to protect the security and stability of the frontier and to promote the further development of the border region.

In the course of his inspection of the Guangxi Zhuang Autonomous Region, Chairman Jiang also visited officers and men of a certain unit of the Navy and the officers and men of the general detachment of the Guangxi Armed Police Force.

CENTRAL-SOUTH REGION

Problems in Cadres Going Down to Grassroots Units

91CM0103A Zhengzhou LINGDAO KEXUE
[LEADERSHIP SCIENCE] in Chinese No 10,
16 Oct 90 p 10

[Article by Wang Shicuo (3769 0013 2238), Yinchuan Party Committee, Henan: "Problems and Solutions Regarding Cadres Going Down to Grassroots To Work"]

[Text] Since the resolution passed by the Sixth Plenary Session of the 13th CPC Central Committee was issued, cadres from party and government organizations have successively left their organizations and penetrated grassroots units such as the numerous villages and factories. They carried out investigations and research and tried to understand the people's situation and help the masses solve their real problems. This has been effective in cementing the relationship between the party and the masses, enhancing party cohesiveness, and safeguarding overall social stability. The masses welcomed this. However, looking at the actual situation of cadres going down to grassroots levels at the present time, we see that many practical issues still have yet to be resolved to one degree or another.

On the one hand, these problems are manifested by some unit leaders who only superficially comprehend the importance and the long-term significance of cadres going down to the grassroots level. They equate cadres going down to grassroots units to giving out money and materials in order to slightly increase the masses' material benefits. If their units are "upright" ones, without money or authority, they worry they cannot help the masses and therefore will not be welcomed by the masses. So units casually send a few cadres down to grassroots levels to register. After a couple days, these cadres would go down again and put in an appearance. They may go to the grassroots units in name, but in actuality they almost always return to their own units, and go home almost every day. Some unit leaders base their actions on their own personal feelings and take the opportunity to get rid of people that bother them. They do not choose cadres of high political quality and ability, but instead often send cadres who are poor in quality and disagreeable. Thus cadres that are sent down are constantly worried; they cannot perform at the grassroots levels with ease. Some harbor the idea that they are only there for a day or so, and so they fritter away the time. There are also unit leaders who, after sending cadres down to grassroots levels, insist that they are busy with work in their organizations and do not pay further attention to these cadres. In effect, cadres at grassroots units are left to "dance solo," without much support. They even suspend incentive measures and problem-solving methods that were established before they arrived. Rewards that should be given are not given. Actual problems that should be solved are not solved. All

of this affects, to varying degrees, the morale of cadres who have gone down to grassroots levels.

On the other hand, these problems are also manifested by the following: Some cadres sent down to grassroots levels do their utmost to help the masses solve problems related to materials, such as water, electricity, fertilizer, funds, etc. However, they dare not interfere on difficult issues, such as opposing corruption and mediating civil conflicts, for fear of offending people. Some cadres sent down to grassroots levels do not start from an objective point of view. They look down on the small things they are capable of doing. They do not take to heart the task of educating and spreading propaganda among the masses. They think only of accomplishing something earthshaking. Yet this sort of grand work style usually does not accomplish its goals, because conditions are not right. There are still individual cadres who go down to the villages and become too pretentious to learn from the masses, and who do not seriously carry out investigations and research. Based on their scanty knowledge, they make indiscreet remarks or criticisms, and show themselves off. As a result, they drift away from the thinking of the masses and encounter obstacles in their work.

I believe the key points to solving these problems are the following: increasing understanding, enhancing leadership, correcting attitudes, and demanding tangible results. Leading cadres at all levels must study the resolution of the Sixth Plenary Session of the CPC Central Committee further. They must realize, on both a theoretical and practical level, the importance of sending cadres down to grassroots levels. They must truly attach importance to going down to grassroots levels, and realistically strengthen its leadership. They must frequently listen to reports from those who have been sent down to grassroots levels and understand the masses' responses and emotions, in order to build bridges for further work at the grassroots level and solve the problems of grassroots-level cadres. We must criticize and educate those unit leaders who want to take this opportunity to get rid of their burdens. We must demand that they dispatch comrades who have good political qualities, strong work abilities, and abundant experience working at grassroots levels.

For grassroots-level cadres, we must proceed with situational, policy, and disciplinary education. In particular, we must carry out Marxist education using the masses' viewpoint and masses line. We must help cadres going down to grassroots levels to relate theory to practice in their work, and demand that work is carried out in a down-to-earth manner. We must continuously strive to raise their political quality, leadership skills, and their grassroots-level work skills.

Through practice, we must establish and perfect the system of cadres going down to grassroots levels. We must incorporate going down to grassroots levels into the management objectives of party and government organizations at all levels. At the same time, we must use the

achievements of cadres sent down to grassroots levels to work as an important basis for selections, promotions, and rewards. Tests must be given at regular intervals. Rewards and punishments should be carried out. Sending cadres down to grassroots levels should become regular and systematic. In examining the practical work of cadres going down to grassroots levels, we must realize "three observations": First, observe whether they have

helped to establish a good party branch organization. Second, observe whether they have introduced any new techniques, paid attention to supporting agriculture with science and technology, and promoted economic development in the countryside. Third, observe whether they have made long- and short-term plans for the grassroots levels, and also if they have created the conditions for realizing the plans.

DPP Seeks To Taiwanize KMT

91CM0060A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 250, 1 Nov 90 pp 66-67

[Article by Peng Huai-en (1756 2037 1869), full-time teacher at Taiwan World Journalism Training School: "Political Background to 'de Facto Sovereignty' Decision"]

[Text] At its Fourth National Congress on 7 October, the Democratic Progressive Party [DPP], which represents Taiwan's main opposition movement, passed its resolution on "A Determination of Taiwan's Sovereignty," emphasizing that Taiwan's "de facto sovereignty" does not extend to the mainland and Outer Mongolia. The determination was made on the same day that President Li Teng-hui established the "National Unification Council," illustrating the dialectical relationship between political "forces" and "opposing forces." As the "unification" slogan of the KMT [Kuomintang] is shouted ever more stridently, the Taiwan independence elements are ever more united and act in concert. The DPP's victory is shown in that its determination was passed with the unanimous support of the Beautiful Island and New Tide factions.

Native Awareness Basis of Opposition Forces

According to several political opinion polls in Taiwan in recent years, the DPP masses have a high degree of Taiwanese consciousness. Simply stated, little of Taiwan's opposition force is based upon the call for democratization; the hope is for self-determination instead. To borrow a Taiwanese expression, "it is a day for Taiwanese to show their faces." Although in the 1970's the KMT began to select crack troops in the move toward nativism, which to some degree mitigated pressure by Taiwanese to engage in politics, still, it was difficult to overturn high-level policy decisions in which mainlanders held long-term advantageous positions. Therefore, the opposition forces have always criticized the KMT's legitimacy. In addition, why not mobilize the strength of the 74 percent of the population that speaks the "Southern Min dialect"? The most effective political slogan is an appeal to native awareness. Taiwanese independence is an extreme form of native consciousness. It alone has a clear-cut stand that makes it easy to raise political figures. Thus, as long as outside restrictions diminish, the call for Taiwanese independence will grow rapidly.

"Emotional Ties to Li Teng-hui" and Intraparty Divisions

Since Li Teng-hui became president, there has been a fundamental change in the KMT with regard to striving for the support of Taiwanese who have native awareness. This is due not only to Li's being Taiwanese, but also to his special background, which makes the majority of Taiwanese believe that Li Teng-hui will ultimately undertake great changes. The regime under his leadership may become the force to truly determine Taiwan's

future fate. This has engendered in the Taiwanese great "emotional ties to Li Teng-hui."

"Emotional ties to Li Teng-hui" are a psychological need of Taiwanese who seek self-determination. Therefore, with Li Teng-hui, "who is in the same camp," Taiwan's opposition forces have not played the same role as opposition parties in democratic countries. On the contrary, they have gone out of their way to avoid criticizing this KMT chairman. It is hoped that, as Li consolidates his power, he will realize the hopes of the Taiwanese for self-determination. It is hoped that he will truly achieve the victory of Taiwanese independence without a fight.

Of course, the KMT's political power will not collapse in a single day. In the end, the KMT is not an East European communist regime. The maturation of its political and economic development presents enough of a challenge to opponents of its legitimate rule. Moreover, economic development has created a middle-class society that essentially is conservative. There is a rather strong desire to maintain the status quo. All of these elements are advantageous to the continuation of KMT rule. Thus, regardless whether Li Teng-hui has an awareness for reforming the regime's political authority, opposing forces are inevitable. These opposing forces dare not attack directly Li's authoritative position that was legally won. Only by donning the "Taiwan independence" or "independent Taiwan" caps can they deny the legitimacy of his rule with perfect justification.

Given this structurally contradictory relationship, after the February political tide in Taiwan, the KMT broke into mainstream and nonmainstream factions. Li Teng-hui's vigor was sapped after the political contention. Although he did keep his ruling position, he lost administrative power over the Cabinet.

From the "National Affairs Conference" to the "National Unification Council"

Basically, by convening the "National Affairs Conference," Li Teng-hui hoped to establish his own political platform by moving from constitutional power to presidential power. He hoped to regain dominant decision-making power.

The leaders of the DPP naturally saw through Li's plan. Thus, while arranging for and participating in the "National Affairs Conference," they showed themselves in complete harmony with the mainstream faction. For a time this made outsiders erroneously think that politics in Taiwan ultimately would become reasonable political party politics. However, if constitutional political reform cannot break free from restrictions in the existing order, and stop only in the process of constitutional revision, then this is essentially a case of political reform being unable to break free from the control of the conservatives. In the end it is a return to the limitations of the organizational system.

In effect, if one is unable to formulate a new constitution and is unable to have direct presidential elections, then

independence is unable to get through the existing system. Furthermore, after the "National Affairs Conference," the KMT was very cool to the idea of constitutional political reform. Everything reverted to original authority rule, making the DPP feel that it had been duped. Therefore, when Li Teng-hui again proposed the idea of a "National Unification Council," the DPP was uninterested. This is because the DPP still could advocate constitutional revision and direct presidential elections to show its stand on self-determination at the "National Affairs Conference." Participation in the "National Unification Council" undoubtedly would be political suicide for political figures in the DPP, since it would mean turning one's back on the sure ticket to popular support for Taiwanese independence in the elections. Thus, most political figures in the DPP dare not reveal their attitudes. No one except some fringe figure like Kang Ning-hsiang [1660 1337 4382], who already lost his political platform, has such audacity.

Aim Is "Majority Rule"

Relatively speaking, the Taiwanese people have always harbored doubts about unification, particularly with regard to some powerholders' emotional ties to the mainland. All along they have been unbelievers, worried that the KMT might sell out Taiwan. During a press conference with the president of the Legislative Yuan on 12 October, KMT legislator Chen Che-nan [7115 0772 3948] publicly asked Legislative Yuan chair Hau Pei-tsun whether there still were any Shih Lang and Wu San-kuei's [national traitors] around. It is easy to see that the fear of people in this province of being sold out by people from outside provinces is not determined by party affiliation.

Regarding developing tendencies, as far as the predominance of the population structure goes, if Chinese Communist sovereignty does not actually reach Taiwan, then sooner or later Taiwan's authority will return to the Taiwanese people. Of course, considering the international situation, even though Chinese Communist sovereignty does not actually reach Taiwan, the majority of countries recognize only "one China" and recognize that "Taiwan is part of China." Therefore, the DPP also knows that it will be very difficult to get legal recognition for the sovereign country of an independent Taiwan. Although there is no positive way to obtain sovereign recognition, by first abandoning sovereignty over Mainland China and Outer Mongolia and logically denying the KMT's legally constituted authority, then negatively, the political power of the KMT will be "Taiwanized." Then the next step could be to advocate the principle of "majority rule" on the sovereign land ruled.

The KMT knows that the sovereignty of the Republic of China has not extended to Mainland China since 1949. It was even more hopeful of winning legal recognition of

its political power by all the world's countries. But, given one diplomatic setback after another since it withdrew from the United Nations, it early on lost hope regarding the international situation. The KMT was perfectly content in just not becoming a local government of the Chinese Communists. Therefore, notions of sovereignty, even if of merely symbolic value, on the surface emphasize that China enjoys sovereignty. In the first place, the KMT itself does not really believe this.

DPP Compromises To Give Face to Li Teng-hui

Naturally, the KMT would not be foolish enough to think that "seizing power" was not behind the DPP's activity in loudly shouting that the "emperor is wearing no clothes." This is because the original wording of "sovereignty" was "our country's authority does not extend to the sovereign territory of the PRC or to the Republic of Mongolia." The night before the Fourth National Congress of the DPP, KMT Secretary Sung Chu-yu [1345 2806 3842] told the DPP that Hau Pei-tsun had convened a meeting with the senior officers; if the original wording of the Taiwan sovereignty document was passed, then a harsh attitude might be adopted. Facing such pressure, the DPP could not but consider whether the time for a showdown had come and whether it had the strength or should step back. Thus it changed the wording to "our country's de facto sovereignty does not extend to Mainland China and Outer Mongolia." Even the DPP itself admits that this compromise was to give face to Li Teng-hui. Clearly, the factor of provincial affiliation once again played a subtle role.

Yet, could there be another "Kaohsiung incident" if the DPP is unwilling to compromise? It seems that this is rather unlikely. In the end, the political environment has changed. Nevertheless the KMT must take action, lest it give the Chinese Communists a message of tacit consent to Taiwanese independence, which would have unforeseeable results that the KMT leadership could not bear. Therefore, after both sides engaged in a "propaganda war," the battle with daggers drawn swiftly came to naught.

However, if the question of dividing the highest levels of power in Taiwan is not resolved, the problem will break out again in various forms and under different circumstances, whether related to provincial affiliation or the issue of unification and independence. It is just as the political scientist H. Lasswell said, politicians cover their own aims with public goals. The so-called issue of unification or independence is essentially a question of whether, in dividing up power in Taiwan, equal consideration can be given to the hope of the Taiwanese "to show their faces" and to the standpoint of people from outside provinces who enjoy power and want to maintain security. If the answer is negative, then future political conflicts will never cease.

Li Peng-fei, Xu Simin Discuss Hong Kong Issues

91CM0090A Hong Kong CHING PAO [THE MIRROR] in Chinese No 160, 10 Nov 90 pp 12-17

[Article dated 15 October 1990 by Liang Debiao (2732 1795 2871): "Conversation Between Li Peng-fei and Xu Simin on Various Issues"]

[Excerpts] [passage omitted] Mr. Xu Simin [1776 0934 3046], a veteran member of the CPPCC [Chinese People's Political Consultative Conference] from the Hong Kong and Macao area, had a talk on 9 October with Mr. Li Peng-fei [2621 7720 7378], senior member of the Legislative Council [Legco], on a broad range of issues facing Hong Kong. The exchange was frank and wide-ranging and there were both similarities and differences in their viewpoints. This writer was fortunate enough to have a chance to participate in the conversation. The content of the conversation has been summarized below to satisfy readers interested in Hong Kong affairs. [passage omitted]

This article has not been reviewed by Councilman Li Peng-fei. Any errors and omissions are my own. [passage omitted]

Xu: The government will hold the first direct Legco elections next September. Yet the rate of voter registration is very low right now. Prominent figures in society are not too interested in the elections. In fact, they have many misgivings about them. Within the industrial and commercial circles, people with organizational and managerial abilities are reluctant to run for office. This shows that we need to mount a massive publicity and educational campaign if we are to practice a full-fledged one man, one vote system. People in industry and commerce must be encouraged not to be overly concerned about "losing" or "winning," but to see running for elections as a good opportunity to express one's political opinions and raise the level of civic education among the citizens. Otherwise, people who get elected may well turn out to be those who specialize in street activities, uninformed about economics and unable to reconcile the interests of all social strata.

Li: This is most worrisome. Actually, what most concerns the people of Hong Kong at present is law and order, followed by the economy. Everybody knows the importance of the economy. These days, however, businessmen who understand how the economy works do not want to come out and get involved in politics and do something in that area. This is the biggest hidden worry. China says, "Let Hong Kong people run Hong Kong." Only experienced people can run Hong Kong. Sloganeering alone won't do.

My analysis of the elections next year is this. Democratic groups will capture 10 or 11 of the directly elected Legco seats thanks mainly to their early start and the fact that their leaders have frequently expressed their opinions in the last few years, giving them a good deal of exposure. In the minds of the Hong Kong people, they have the courage to speak up. Whether what they say is right is

something else. I expect them to have more influence in Hong Kong and Kowloon than in the New Territories. At the moment I cannot comment on their ability to get things done. I only believe that factory owners, businessmen, and other people of lofty ideals in the business community must really take a more long-term view and make a little sacrifice. If they want to take part in politics, they must take a more balanced view, to say the least.

Xu: Is that possible? I feel time is running out.

Li: It is certainly possible. Needless to say, industry and commerce had a late start, but with its economic muscle, there is still much it can do. The reason is that it takes money to run an election. I believe that if it loses a dozen seats in 1991, the government's efficiency will decline. On the whole, though, there will not be any major problem politically. Things will not get out of hand. Certainly the government is quite concerned about this. [passage omitted]

Another concern of mine is the civil service. These days Hong Kong civil servants have no contacts with China. It is hoped that Director Xu will do something to promote two-way communication. I have told people at XINHUA SHE that they should pay more attention to that kind of work. This is because civil servants are the executors in the framework of government. You could choose not to trust members of the Legislative and Executive Councils, but civil servants are the mainstay. You must think of a way to get in touch and communicate with them. Most of these civil servants range in age between 35 and 45, with 10, 20 years of experience in running Hong Kong. Nowadays, however, many of them are looking for a way to get out. This is a big problem. Lately, therefore, I am thinking of looking for a powerful individual on either of the councils to take charge of civil service affairs. Otherwise, A goes to a rally, B goes to a rally, and Hong Kong will dissolve into chaos. What to do then? I hope the Chinese leaders understand this situation. They have no contacts with the civil servants of Hong Kong. I also have urged the governor to speak out. The governor will leave one day, but the rank-and-file civil servant will stay. What will be his future?

Xu: Civil servants may send representatives to the mainland for discussions more often.

Li: Actually, such contacts need not be publicized. The Chinese side should get in touch with civil servants, in particular. Today even the Hong Kong government does not oppose civil servants having contacts with the mainland. It is just that there are no channels. The Chinese side can invite them to talk about what the future will be like. This is something that must be done.

Xu: I may raise this matter with XINHUA SHE in Hong Kong.

Li: In fact the political matter is less important. Sooner or later we will train a group of Legco members. You want money, the Legco appropriates the money. All this

is no big deal. The really major issue is running Hong Kong. The civil service is full of people who are capable of running Hong Kong. We must build up their confidence. In the current labor unrest in the civil service, the people below are restless, while people at the top are losing control. Even department directors and deputy directors are worried, wondering where their future lies and what kind of attitude the Chinese government will take toward them. Add the phrase "left behind by the colonial government," and the situation will be unbearable to anybody. It is like what some people said in the past about Legco members being "part of Britain and Company." That is not bearable. [passage omitted]

Xu: Isn't there talk of members of the two councils visiting the mainland? When will the trip take place?

Li: They have been talking about it for a long time. Not much good news there. To this day I still don't understand China's attitude toward the two councils. I do not think they bear a grudge against them. It is just that the Chinese are wary of them. Communication channels must be established, if not now, then in the near future. This is because in Hong Kong the two councils are involved in politics, in the people's livelihood, in the economy, and in policymaking.

Xu: I have always thought that members of the two councils contribute a lot to Hong Kong.

Li: Hu Faguang [5170 3127 0342], Huang Baoxi [7806 0202 2946], and others are former Legco members. They were appointed members but have done a lot for Hong Kong.

Xu: I will go so far as to say that there is nothing wrong with Hong Kong being pro-British. In fact, China should even welcome people who are pro-British. Why? Are they supposed to be pro-United States, pro-Japan? You can be pro-British and pro-China at the same time.

Li: Frankly, in all my 12 years on the Legco, I have come across no more than one or two members who were truly pro-British and utterly obsequious. Everybody else is committed to serving Hong Kong. Now and then they even get into heated exchanges with the financial secretary, the secretary for home affairs, and the governor, behind closed doors, of course, and unknown to the public. Also, members of the two councils are not paid a bundle. In the final analysis, therefore, it is a social responsibility for them.

Xu: I raised this matter with Director Ji Pengfei [1213 7720 7378] of the Hong Kong and Macao Office during the third meeting of the Seventh CPPCC in late March. I said we should accept the idea of letting members of the two councils visit the mainland as members of the two councils. When China receives the governor, it is not receiving David Wilson, but Governor Wilson of Hong Kong. Since it is OK to receive the governor, why isn't it OK to let a delegation of the two councils visit China? Ji Pengfei said this is a good idea that can be looked into.

Li: They should be allowed to visit China. There should be political communication. These days the councils are becoming more and more powerful. Most important, they have to approve government spending.

Xu: If the transition is to be a smooth one, I think the two councils need to play a vital role.

Li: The fact of the matter is that among members of the two councils, many love China. That is something I feel personally. Many of our colleagues wish Hong Kong well, wish China well. They are not what some people make them out to be: "a bunch of Britons."

Xu: Never mind wishing China well. It would be enough if only they wish Hong Kong well. If Hong Kong is doing well, then it will automatically be good for China. That in itself is a contribution to China. [passage omitted]

Li: Hong Kong's current international position is quite good. When we travel overseas, we hear everybody praising Hong Kong, praising its achievements.

Xu: There are two reasons for Hong Kong's achievements thus far. First, in the several decades in which the CPC has been in power, it has been very consistent in its policy of stabilizing Hong Kong despite endless political campaigns on the mainland. No matter how chaotic things were back home, that policy has remained unchanged. Even during the turmoil of the Cultural Revolution, it left Hong Kong alone. Second, in ruling Hong Kong, the British Government has been very cautious about the CPC. It has taken great pains to cultivate good neighborly relations with China and did not allow anybody to stir up trouble in Hong Kong that might upset or threaten the CPC, to the extent of banning any movie that would affect the mainland. Now both factors have changed a little. In Beijing there are cadres of a low standard who talk irresponsibly. The moment they open their mouths, the people of Hong Kong become jittery. The mishandling of the 4 June events has dealt a severe blow to the confidence of the people of Hong Kong. As for Britain, it has changed its past good-neighbor policy toward China in the belief that the Chinese are busy enough taking care of their own problems after 4 June. It has unilaterally ended the meetings of the Sino-British joint liaison group, suspended contacts between high-level Chinese and British officials, unilaterally passed a law that will go beyond 1997, and unilaterally decided on a major construction project that would go beyond 1997. Britain needs Chinese support, yet fails to communicate with the Chinese beforehand. When Britain and China argue and disagree in the open, they severely undermine the confidence of the people of Hong Kong and foreign investors. Furthermore, the Hong Kong government has now rushed into declaring that it will build the Qingma Bridge on its own.

Li: The bridge does not have much of an impact. From the perspective of long-term development, there is a need to link Hong Kong with Lantau Island. I understand that Chinese experts will still be visiting Hong Kong as scheduled.

Xu: It seems that the Chinese do not regard the location of the new airport too favorably.

Li: That I don't know too much about. I thought the Chinese were agreeable.

Xu: Reportedly, the Chinese hoped that the new airport would be built in the New Territories to link the island, Kowloon, the New Territories, Shenzhen, and Shekou in the future. Already, with so many Hong Kong factories doing their processing on the mainland, transportation has become a problem. If the new airport is built in the New Territories, the road network that will be constructed along with it will also solve the transportation problem. As for the development of Lantau Island, that probably will not happen in the next two to three decades. Also, the Chinese are worried that the project is too expensive and will be too burdensome for the government of the future special administrative region.

Li: The fact is that many people don't understand Hong Kong's finances. If Hong Kong's present fiscal state is any guide, the project is entirely affordable. It is just that the Hong Kong government does not want to disclose the reserve fund situation. China's concern is justified. I believe some kind of agreement may be reached through meetings of the expert group. [passage omitted]

Xu: Councilman Li, how do you see Hong Kong's future? How do you intend to promote communication between China and Hong Kong?

Li: I truly believe Hong Kong will do well for several reasons. To begin with, Hong Kong's geographical location makes it irreplaceable in the world: It is at the center of the Asian Pacific area. Take the construction of the airport, for instance. Even Beijing says Hong Kong needs to build a new airport; the number of people who pass through Hong Kong these days is simply overwhelming. Despite the events of 4 June, 17 million people passed through the Hong Kong airport last year. Traffic of this magnitude is not something that the Shenzhen Airport, Macao Airport, or the proposed Zhuhai Airport can handle. Second, Hong Kong's remarkable economic achievements have made it the world's 11th largest trading area despite its small size. Although many people have migrated overseas, I see that a good number are coming back. I have friends who migrated to Canada only to find themselves idle with nothing to do. They could not bear staying there any longer and have come back to Hong Kong because it is easy to make money here. That is why our economic system cannot be changed and will not be changed. Third, Hong Kong has top-notch people. They are fast, diligent, and efficient workers, so I say Hong Kong's international status will be even higher by the year 2000.

Xu: How should the Hong Kong government handle the brain drain problem?

Li: Recently, the Hong Kong government announced that Chinese citizens overseas would be allowed to apply to work in Hong Kong. As a matter of fact, when I was

lecturing in Europe last year, I was told by many Chinese students that they hoped to come to Hong Kong to work. They said wages in China were too low and opportunities for growth were few. After coming back from Europe in November, I mentioned this to the governor. At the time his only concern was he did not know whether the Chinese leaders would like it. When the governor visited Beijing last year, Li Peng also raised this point with him.

Xu: In that case you were the first person to make that proposal. That is a far-sighted view. Do you expect a wave of Overseas Chinese students to come to Hong Kong?

Li: What we have done is to adopt a policy. It is up to private companies to do the recruitment and hiring. As for how many would come, we do not have any rough number. The policy will enable overseas students who don't want to return to China and cannot stay abroad to come to work in Hong Kong.

Xu: Will we run into some sensitive issues? For example, what would happen when some democracy movement elements and people sympathetic with the movement apply to come here to work?

Li: The Hong Kong government will not let those people come here. There are three conditions for entry, one of them being that people who involve themselves in politics cannot come here. Those who have been engaged in politics all have a record. No, I am not concerned about this.

Xu: Do you need to consult the Chinese about what kind of people to hire?

Li: That was discussed much earlier. Even Premier Li Peng said it is a good policy. In any case, it will be private firms that will be doing most of the hiring.

I think Hong Kong's brain drain is indeed a problem. But finally we are willing to spend big bucks on education, so in the long haul it will not be a big problem. The Chinese leaders were right when they said that if China is stable, Hong Kong would be stable. The stability of China, therefore, is the most important thing when we look north. I believe Hong Kong's status will not change. Ninety percent of foreign investors in Hong Kong, including Japanese and U.S. businessmen, are optimistic about Hong Kong's future. They think they have to trade with China no matter what happens in the future because China is a market with a good deal of potential. And it is Hong Kong that stands to benefit most. Because of its proximity, Hong Kong enjoys a head start over others when it comes to marketing its products in China. The difference is that we must train a host of Hong Kong people once the governor leaves. These people should have a sense of belonging to Hong Kong and feel that they are the people of Hong Kong and as such assume the responsibility of running Hong Kong. Hence my special concern is the civil service. They too want to communicate with China. It is just that the channels are lacking and nobody speaks up. [passage omitted]

Xu: There are no problems about Legco members continuing beyond 1990, are there?

Li: I don't think the problems are serious. What is needed is consultation between Hong Kong and China.

Xu: Do you have any candidates in mind for the position of administrator?

Li: Consultations are needed on that. As for candidates, I have not heard anything from the British side. I think the British concern right now is to ensure a stable transition in the next few years. They probably consider the matter of an administrator an issue for the Chinese. Certainly, if the Chinese want to consult them on the matter, the British would go along. Personally I don't see the governor remaining in power until 1997.

Xu: There are rumors that Dame Lydia Dunn would become the deputy governor and then keep that position through 1997.

Li: No such thing. I should know. Dame Lydia Dunn is not interested. But of course there is no telling what will happen once a person mounts a tiger.

Xu: She comes across as a steady person. Press reports say she has recently suggested that members of the Executive Council too continue beyond 1997.

Li: I have discussed this matter with her. All she said was that sooner or later we need to talk to the Chinese about this. To discuss it now may be a little premature. [passage omitted]

Xu: Just now Councilman Li talked at length about Hong Kong's geographical advantages. In my opinion, Hong Kong is superior to Eastern Europe and Britain, let alone the Middle East. Hong Kong is even better than Singapore, where taxes are high. And of course, there is no comparison between Hong Kong and places like Vietnam or Cambodia. So, no matter which place you compare it with, Hong Kong still comes out ahead.

Li: I think so too. [passage omitted]

Xu: Some factors have indeed created a crisis of confidence. But in some ways we are just scaring ourselves. In Hong Kong you have freedom of speech; you can say anything. The media are awfully influential.

Li: Frankly, if things go wrong in Hong Kong, even 10 foreign passports won't do you any good. If you want insurance, you are better off really emigrating.

Xu: That is why China must change. How? That is up to the Chinese people, not the people of Hong Kong, and certainly not democracy movement elements overseas.

Li: I think how China will change is up to China itself.

Xu: The people of Hong Kong must make Hong Kong a success, prosperous and flourishing. If and when all compatriots from the mainland praise Hong Kong after

visiting it, then Hong Kong will have succeeded. It would also be helping changes on the mainland.

Li: Absolutely. I think China's present system must be reformed sooner or later. For instance, the reasons for China's economic failure are entirely institutional. However, one must reform with vision.

Xu: China has failed to develop its economy properly not because it lacks qualified people but for institutional reasons.

Li: It is also because of institutional factors that Hong Kong is an on-going success story.

Xu: Nevertheless, there is an excess of street activities in Hong Kong right now. At the beginning, it seemed that the Hong Kong government wanted to ease up. These days, though, things are getting out of hand. Street activities were peaceful earlier on but are beginning to get out of control. As a result, democracy and the rule of law have not been enhanced. Instead the situation has gotten more explosive. Too many street democratic activities and a succession of industrial actions have created a sense of uncertainty in society. This is worrisome.

Li: All these are social problems which the government takes very seriously.

More Students Expected To Apply for Mainland Study

HK0801023991 Hong Kong HONGKONG STANDARD in English 8 Jan 91 p 6

[Text] More students from Hong Kong and Macao are expected to apply for post-graduate studies in China this year after a sharp drop last year.

The Beijing-Hong Kong Academic Exchange Centre said it had been flooded with inquiries, even though it only began accepting applications yesterday.

The centre has been responsible for recruiting applicants and organising examinations for the three post-graduate schemes on behalf of the State Education Commission since they started in 1988.

Last year, only 18 students were enrolled, compared to 57 in 1989.

Project officer of the China-funded centre, Hui Tak-shun, attributed the drop to the June 1989 military crackdown on student protests.

He said: "In the run-up to 1997, there is an ever-increasing demand for professionals who have an in-depth knowledge of China. The scheme would encourage more people to stay in Hong Kong after their studies."

Students from Hong Kong and Macao can choose from a wide range of programmes, some of which offer scholarships, at more than 60 universities and colleges.

Members Named to Airport Negotiation Teams

HK0101023491 Hong Kong SOUTH CHINA
MORNING POST in English 1 Jan 91 pp 1, 2

[By Fanny Wong]

[Text] A senior official of the Hong Kong branch of the Bank of China was appointed a member of the Chinese expert team for the talks on the Chek Lap Kok airport scheme to be held next week.

The two governments yesterday issued separate statements confirming that the second round of expert meetings between the two sides would be held in Beijing between January 10 and 12.

Announcing the line-up of the two teams, a government spokesman said the Hong Kong team would be led by the Secretary for the Treasury, Mr Hamish Macleod, who is intimately involved in the scheme's financial aspect.

The Director of the Hong Kong and Macao Research Institute of the State Council's Hong Kong and Macao Affairs Office, Mr Luo Jiahuan, who acted as team spokesman during the first round of discussions, will head the mainland team.

Mr Luo replaces Mr Yong Longgui who suffered head injuries after falling down a flight of stairs during the previous round of talks.

The statements revealed that the Deputy General Manager of the Bank of China Hong Kong Branch, Mr Zhou Zhenxing, was appointed, for the first time, as a Chinese expert team member.

Other new faces of the Hong Kong and mainland expert groups are Mr Darwin Chen, Deputy Secretary for Constitutional Affairs and Mr Sun Yanheng, Chinese senior representative of the Sino-British Land Commission, respectively.

Detailed discussion on the financial aspect of the airport plan and its implications on the Exchange Fund is expected to dominate the three-day talks.

The director of the State Council's Hong Kong and Macao Affairs Office, Mr Lu Ping, raised serious doubts last month about the Government's ability to finance the scheme without either draining the territory's fiscal reserves or substantially raising tax rates.

The Chinese side also wants to be assured that the multi-billion-dollar infrastructure projects would not undermine the strength of the Exchange Fund which plays a key part in maintaining the stability of the Hong Kong dollar.

Mr Zhou is expected to offer his expert knowledge about the financing and monetary system in the territory to help the mainland team assess the data provided by their Hong Kong counterparts.

According to an earlier plan, the Financial Secretary, Sir Piers Jacobs, was to lead the Hong Kong officials to Beijing and a session had been planned for Sir Piers and the team to meet Mr Lu.

But after China finalised the membership of their team, the Hong Kong side made last-minute change to its own line-up, relieving Sir Piers from the mission.

Other members of the Hong Kong team include the Political Adviser, Mr William Ehrman, the Government Economist, Mr Tang Kwong-yiu, the Deputy Secretary for Works, Mr Rafael Hui Si-yan, and the Principal Assistant Financial Secretary, Miss Denise Yue Chung-ye.

The Chinese team members include the Department Head of the State Planning Commission, Mr Wang Yi-ping, the Head of the Research Department of the Hong Kong branch of the NEW CHINA NEWS AGENCY, Mr Zou Mu, and the Deputy Department Director of the State Council's Hong Kong and Macao Affairs Office, Mr Chen Zuor.

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