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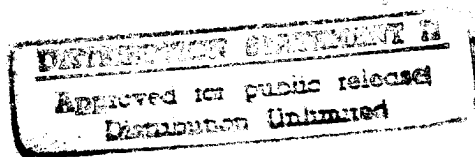
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JINGJI RIBAO DISCUSSES SOCIALIST SUPERIORITY

HK260455 Beijing JINGJI RIBAO in Chinese 7 Jul 87 p 3

[Article by Zuo Maolin (1563 5399 2651): Basic Manifestations of the Superiority of Socialism"]

[Text] In discussing the superiority of socialism, people are apt to consider things more from the point of the relations of production, such as the system of public ownership of the means of production, distribution according to work, and so on. This is undoubtedly correct. But many people forget a more basic strong point, that is, socialism can create higher productivity than capitalism. In fact, this is a basic manifestation of the superiority of the socialist system.

Marx and Engels pointed out in the "Manifesto of the Communist Party" long ago that, after seizing political power and expropriating the exploiters, the proletariat will "increase the total amount of the productive forces as quickly as possible." Lenin also had a very brilliant view on this. He said: "Labor productivity is, in the last analysis, the most important and essential thing to ensure the victory of the new social system... Capitalism can, and will certainly, be thoroughly vanquished because socialism can create new and much higher labor productivity." In recent years, after summing up our historical experiences, both positive and negative, in the past several decades, Comrade Deng Xiaoping made a series of more profound expositions, saying: "what is socialism and what is communism? In the past we have not gained a completely sober understanding of this question. Marxism attaches greatest importance to developing the productive forces... The most fundamental task at the socialist stage is to develop the productive forces. The superiority of socialism is reflected in the fact that its productive forces develop more highly and quickly than the capitalist ones." When speaking to foreign guests, Comrade Deng Xiaoping also said: "The primary task of socialism is to develop the productive forces and to gradually raise the level of the people's material and cultural life. Experience tells us: Poverty is not socialism, which wants to eliminate poverty." These remarks explicitly tell people: The superiority of socialism finds concentrated expression in its capability to create higher productive forces than those of capitalism -- this is precisely the true meaning of scientific socialism. Any discussion of the superiority of the socialist system in the absence of the development of the productive forces obviously violates the basic tenets of Marxism.

It is very important to bear in mind that "poverty is not socialism." Lumping poverty with socialism is as soon as vilifying socialism. It is a pity that this idea still manifests itself from time to time. Some comrades say that, despite our poverty, so long as we adhere to the public system and share our food, we still display the superiority of socialism. This is a typical sentiment of "being happy to lead a simple, virtuous life." It should be noted that, due to historical factors, it is possible to be poor temporarily, but socialism should never be linked to long-term poverty because genuine socialism is linked to prosperity and to productive forces which are higher than capitalist ones. We should never remain indifferent to the existence of poverty in the socialist society.

Some comrades say: With our present productive forces so backward, it is simply a divorce from reality to talk about creating higher productive forces than the capitalist ones. Frankly speaking, our productive forces are much more backward than those of the developed countries. But this is only one aspect of the issue. It should also be noted that we are not more backward than the developed capitalist countries in everything and that creating higher productive forces than the capitalist ones is precisely our unshirkable historical duty. Only by understanding this issue in an all-round way can we gain a clear understanding of the extreme importance and urgency of developing social productive forces and singleheartedly immerse ourselves in our country's modernization program.

When we place the development of productive forces in a primary position, does this mean that the adjustment of production relations is unimportant? Of course not. We should always gain an all-round understanding of, and grasp, the dialectical relationship between the productive forces and the relations of production. We should pay more attention to understanding problems from the basic principle of dialectical materialism that the productive forces are the decisive force pushing forward the development of human history and that it is necessary for the production relations to suit the nature of the productive forces; in practice, we should consciously and promptly reform and adjust those portions in the relations of production that are not suited to the development of the productive forces and consciously open the way for the development of the productive forces.

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RESEARCHERS EXPLORE ENTERPRISE REFORM

HK260401 Beijing JINGJI YANJIU in Chinese No 5, 20 May 87 pp 3-15

[Report by the Study Group on System of Responsibility for Asset Management of the Economic Research Institute, Chinese Academy of Social Sciences: "Further Understanding the Reform of Public-Owned Enterprises: Start, Deepening, Sublimation--A Report on Observations of Experimentation with the System of Responsibility for Asset Management"--written in April 1987 by He Jiacheng (0149 1367 2052), Zhang Xuejun (1728 1331 6511), Bian Yongzhuang (6708 0516 1104), Du Haiyan (2629 3189 3601), and Zhang Xiaoming (1728 2556 2494), with the following taking part in investigation: Wang Hongling (3769 4767 7325), Zhang Ronggang (1728 2837 0474), Guo Jiping (6753 1323 1627), Wei Hui (7614 6540), Liu Xiaoxuan (0491 1420 3763), Yuan Gangming (5913 6921 2494), He Baoyu (0149 1405 3768), Cao Zhong (2580 1813), Dai Jun (2071 3449), and Wei An-ning (1414 1344 1380)--passages within slantlines published in boldface]

[Text] Since the system of responsibility for asset management came into being more than a year ago as a theoretical concept, it has undergone the stages of schematic design and actual experimentation. Currently, about 100 enterprises in over 20 cities in China have accomplished the first phase experimentation, and a number of other enterprises are vigorously preparing to undertake this first phase experimentation. The experimenting enterprises belong to a dozen or more industrial, communications, and commercial sectors. They include enterprises under ownership by the whole people and collective enterprises, and are of all sizes. They include some enterprises which had originally been achieving relatively good results in operation, some which were earning meager profits or incurring losses, and even some which were nearly bankrupt.

The enterprise system reform is not reform in a single aspect, but comprises a complete series of reforms, a crucial link of which concerns operational rights. The system of responsibility for asset management represents a basic change of the enterprise system. It will enable the enterprise system reform to proceed toward the goal of general separation and mutual restraint between various constituents in the following chain: producers--operators--owners of enterprises as legal persons--ultimate owners of assets. In the first phase, efforts are mainly devoted to resolving the problem of the right to operate the enterprises. Judging from the progress of experimental work, the goal for the first phase enterprise system reform has been basically achieved.

Practice has initially proved that the system of responsibility for asset management is truly a socialist form of enterprise system which is effective and which has great vitality and Chinese characteristics.

As a brand new concept of enterprise system reform and a brand new system of state-enterprise operation, the system of responsibility for asset management must not only undergo a considerable process of development from theory to practice, but must also be further developed and perfected. Our current mission is to opportunely review the results of experimentation, sum up experience of success, discover problems arising in experimentation, and on this basis clarify the line of thinking and orientation governing the deepening and sublimation of reform.

I. A Successful Start in Reform: Revolution in Operational Rights

The many-sided successes achieved in the initial practice of the system of responsibility for asset management can be summed up in a single phrase: A revolution in operational rights. This is precisely the basic sign unique to the system of responsibility for asset management.

/1. Under the system of responsibility for asset management, the competitive evaluation of assets helps open up a new path for promoting enterprise reform under the condition of disequilibrium in the macroeconomic environment./

Disequilibrium in the macroeconomic environment is the basic difficulty encountered in the enterprise system reform from the very beginning. Because of inequity in external conditions, the numerous enterprise system reform schemes have either been ineffectual in implementation, or have become new causes of haggling between the enterprises and the state. This disequilibrium in the external environment has also led many people to pay excessive attention to the macroeconomic arena at the expense of exploring practicable ideas which can solve both the problem of unfair competition and the problems with the structure of the microeconomic foundation itself.

The initial practice of the system of responsibility for asset management has proved that the competitive social evaluation of enterprises' assets can convert differences in the enterprises' external environment into monetary differences in the prices of the enterprises' assets, so that various categories of enterprises will be naturally placed on the same starting line. Judging from the situation of the experimenting enterprises, bidders' competitive evaluation of any enterprise's full assets generally covers the following five aspects: 1) The enterprise's financial and cost conditions and other basic conditions, including its scale, production and consumption indicators, quantity of funds owned, future sources of funds, and financial claims and liabilities; 2) the enterprise's situation regarding the purchase of materials and raw materials, and market information concerning its sale of products; this includes the planned targets for allocation of materials and raw materials to it, planned targets for allocation and transfer of its products, quantities of materials and raw materials it purchases on its own and channels through which it makes these purchases, the volume of sale of

products, information about changes in the market for its products, the network through which it sells its current products, the competitive ability of its products on the market, and so on; 3) the enterprise's ability to develop new products, which is ascertained mainly by investigating the enterprise's technological forces and organization of these forces; and also information about its products' complements; 4) the management ability and performance in work of the leading group of the enterprise; understanding this factor can help bidders estimate the disparity between the enterprise's potential and actual current output capacity and judge the extent of exploitation of the enterprise's potential; and 5) the internal and external interpersonal relations governing the enterprise, including unity and coordination among workers of the enterprise, and the numerous noneconomic relations between the enterprise and various departments like the department in charge of it and those in charge of taxation, banking, foreign trade, power supply, and so on. Through an analysis of these five things, bidders make quoted profits as accurate a reflection as possible of the differences in the internal and external conditions of enterprise operation, and on this basis participate in competitive bidding. Judging from actual conditions, the profits quoted by successful bidders depend on both the visible and invisible assets of an enterprise and depend on analysis of information about both the enterprise's past conditions and anticipated future conditions. The results of evaluation also show that in the case of those enterprises which are developing or whose products enjoy good market potentialities, but which are now run by a leading group whose management ability is weak, the profits quoted by successful bidders exceed the enterprises' current profits by a relatively wide margin, sometimes by over 100 or 200 percent, whereas in the case of those enterprises whose production is steady and whose products are not affected by major changes in market demand or supply, the profits quoted by successful bidders are generally close to the current base figures for the enterprises' profits, particularly if the leading group of an enterprise is satisfactory.

As a monetary measure of the risk of running an enterprise which a bidder is willing to bear, quoted profits are no longer a result of haggling with higher authorities or price-setting by a responsible department, but result from social competitive evaluation. Therefore, they comprehensively reflect the enterprises' existing and latent conditions of operation, and represent the prices of the enterprises' assets which reflect in monetary terms the differences in the enterprises' conditions of operation. Here the prices of assets reflect the enterprises' overall productive capabilities. They not only depend on the enterprises' fixed and circulating assets, but must necessarily be affected by other production factors, like labor, land, and technology. In particular, profits here represent prices quoted by operators and not owners. The prices of assets reflecting quoted profits differ markedly from the usual meaning of prices of assets in Western economics. Their basic significance does not lie in an accurate quantitative determination of the actual value of the enterprises' assets, but in the creation of a mechanism which forms the basis for enabling various categories of enterprises differing vastly in their conditions of operation to be aligned on the same starting line.

/2. Under the system of responsibility for asset management, competitive social invitation and submission of tenders and also the selection and training of personnel have initially helped to form an internal mechanism which fosters the contingent of Chinese socialist entrepreneurs./

In the experimenting cities, the most keenly voiced opinion is that in fostering the contingent of Chinese socialist entrepreneurs, the system of responsibility for asset management has truly produced marked results not achievable in other reforms of the system of responsibility for operating enterprises. According to the strategy of tackling operational rights first and advancing step by step in our enterprise reform, the crucial measure of the first step is to select and train entrepreneurs.

Before the system of responsibility for asset management was put into practice, some people worried about whether anyone would be willing to submit tenders when the system of responsibility for asset management was instituted on a trial basis. The situation in various experimenting cities shows that not only have many people (averaging 40 per enterprise) submitted tenders, but their quality is relatively good (the overwhelming majority having received postsecondary education and achieved relatively good results in their work) and they come from many diverse sectors. For the majority of urban experimenting enterprises, bidders are mainly of three types: First, around 35 percent of bidders are cadres of enterprises, including personnel of experimenting and other enterprises like factory directors, deputy factory directors, secretaries, deputy secretaries, and section, office, or workshop chiefs; second, around 30 percent of bidders are mid-level cadres of responsible departments or comprehensive departments; and third, around 25 percent are engineering and technical personnel and other intellectuals. Bidders from other quarters account for less than 10 percent. In economically developed regions, there are fewer restrictions related to social and cultural factors, the pressure of public opinion, and willingness to bear risk, and in particular, it is easy to encourage ordinary workers and peasant entrepreneurs to participate in competition; therefore, there are a larger number of bidders, who come from more diverse quarters and are of better quality. Relatively full-fledged competition has put many true entrepreneurs in positions where they are charged with the right to operate the experimenting enterprises.

The system of responsibility for asset management has not only mobilized qualified personnel previously subdued by the old enterprise system, but has also produced a new mechanism whereby entrepreneurs are fostered. At about 50 percent of the experimenting enterprises, the successful bidders are the factory directors of the enterprises themselves. But as soon as the system of responsibility for asset management began to operate, they were forced to change their traditional behavior of vying with the state for powers and benefits and shirking responsibility; moreover, they have generally raised quoted profits, and in operation and management they have followed market rules to a greater extent. Under the system of responsibility for asset management, operators of enterprises are entrepreneurs instead of government officials because a relatively perfect mechanism has been formed. First,

under this system, operators of enterprises appear through inviting and submitting tenders in a systematized and legally prescribed way, so that their capabilities are recognized by society. Second, if relations of property between the state and an enterprise are clearly defined through the evaluation of the enterprise's assets, the operators' achievements can be more clearly reflected. Third, when the value of the operators' human capital is recognized, their interests can begin to be separated from the staffers' interests. Lastly, when the operators' status as representatives of legal-person enterprises is established and their powers and responsibility over operational activities are strengthened, a wide arena is opened up for them to use their abilities. This series of methods have broken various fetters of the "government official system," so that operators can freely reform the enterprises' internal operational mechanisms.

Of course, owing to the limitation of various conditions, particularly because in the first phase of experimentation owners and producers cannot act rationally, operators cannot act like full-fledged entrepreneurs. However, practice shows that an internal mechanism for cultivating Chinese socialist entrepreneurial behavior is initially taking shape, and it is certain that with the further in-depth development of the system of responsibility for asset management, this mechanism will also be continually perfected and developed.

/3. The system of responsibility for asset management spurs the operators to forcefully change allocative behavior, so that a positive step has been taken to eradicate the expansion of consumption in enterprises./

Another major feature of the system of responsibility for asset management is that from the schematic design to the actual institution of the system, care has always been taken to prevent an expansion of consumption funds due to reductions in taxes or profits delivered, and the pressure of expansion of consumption, which existed during past reforms and now still tends to intensify has been effectively resisted. Thus, a positive step has been taken in eradicating the expansion of consumption. Moreover, the operator's responsibility, powers, and interests can be integrated only through several consecutive links like asset evaluation, property mortgaging and revaluation, and so on. Therefore, to the operators, first, rewards and penalties must be rigorously tested by market evaluation, and the rules governing rewards and penalties can no longer be arbitrarily changed through haggling; second, the reality of rewards and penalties is stressed, and ex post facto non-execution of rules governing rewards and penalties will no longer be possible; and third, balance between rewards and penalties is sought, and the practice of meting out only rewards will give way to the possibility of anticipated penalties. Thus, economic constraints on operators' behavior will be greatly strengthened.

Under the abovementioned preconditions, enterprises experimenting with the system of responsibility for asset management have generally initiated internal reforms of labor, personnel, and income distribution systems. The majority of reforms consists of: 1) Readjusting the organization of cadres of

sections or offices and cadres at the deputy factory director level, drastically abolishing or merging sections and offices in charge of production or operation, dismissing personnel not undertaking production, and reducing expenses on nonproduction undertakings; 2) specifically apportioning operational responsibility among various workshops in the case of large and medium enterprises by selecting workshop chiefs anew through inviting applications for these posts; and 3) carrying out wage readjustments and reforms within the factories, having bonuses and basic wages vary in unison, and linking them to everyone's job. All these reforms involve drastic readjustments of interests in the enterprises and thus cause violent conflicts and contradictions. Before the advent of experimentation with the system of responsibility for asset management, therefore, the factory directors of various enterprises usually found these consequences dreadful to contemplate and dared not act. Actually, in other types of enterprise reform, the constraint of the rewards and penalties incentive on factory directors has failed to force them to reform internal labor allocation mechanisms. In enterprises experimenting with the system of responsibility for asset management, however, unless operators reform the relevant enterprises' internal allocation mechanisms, they will personally suffer consequent material loss. These reforms will not only directly make it difficult for wage income to exist as a dissociated variable independent of personal labor, but will also help promote production by virtue of the rational organization of staffers of the enterprises, so that they will indirectly curb the expansion of consumption.

Of course, eradicating the expansion of consumption funds calls for increased restraining of operators. Achieving this on a full scale, however, depends on solving problems related to producers and owners; otherwise, our anticipated objective cannot be fully achieved. It is certain, however, that the system of responsibility for asset management has unfolded very hopeful prospects for eradicating the expansion of consumption funds.

/4. Under the system of responsibility for asset management, the reevaluation of enterprises' assets represents a direct constraint on the operators' interests. It both powerfully curbs the expansion of investment in the enterprises and solves the problem of enterprises gearing their behavior to short-term interests./

Expansion of investment is a chronic malady of the traditional system and a basic impediment to deepening China's economic reform. Under the enterprise reform based on the simple concept of delegating powers to lower levels and conceding interests to enterprises, an enterprise can invest so long as it has money, no matter whether profitability is high or is as low as zero. The yield from investment is not a precondition constraining investment decisionmaking. Vying for investment and loans is still part of the enterprises' typical behavior. Some enterprise reform schemes can stay the trend of expansion of investment to some extent, but aggravate problems of the enterprises' long-term behavior. Under the system of responsibility for asset management, the greatest change in the enterprises' behavior is that while the thirst for investment can be suppressed, the enterprises also tend to gear

their behavior to long-term interests. First, the enterprises' scrambling for loans has generally been abated. For example, the Hunan Xiangtan Diesel Engine Factory was originally allotted a 1.6 million-yuan loan quota. After careful calculation, the successful bidders returned 600,000 yuan on their own initiative. Experimenting enterprises in Chongqing, Shenyang and so on have generally done the same thing. This is in sharp contrast to the enterprises' traditional behavior of joining the scramble again after spending all the money and initiating projects to fish for funds. Second, operators are cautious in making investment decisions--instead of fixing their eyes on output as in the past, they now attach greater importance to a comparison of input and output; and not only must investment be profitable, but the comparative benefits of various investment projects must be fully considered, so that the rate of profit on investment will not fall short of the anticipated level of growth at reevaluation of assets. Consequently, the economizing input can be effective. This shows that the malady of thirst for investment is being cured. Lastly, regarding the composition of investment, a trend of reducing investment in nonproduction undertakings has appeared among the experimenting enterprises. This at least shows that the mechanism of interests has begun in practice constrain the enterprises' investment decisionmaking.

The crucial reason why the system of responsibility for asset management is so markedly effective is that the reevaluation mechanism is superior to other enterprise reform schemes. Under this system of assessment, operators must not only care about their own work achievements while they are in office, but must have even greater concern about whether the assets in their charge will grow when their terms expire. Obviously, the results of investment will directly affect the price of assets at reevaluation. Practice has proved that this method of directly constraining operators by the reevaluation of assets is effective in changing investment behavior. Of course, the improvement of enterprises' behavior also depends on increased restraining of owners and the formation of the funds market.

/5. The unique result of the system of responsibility for asset management observed in practice is that it is really free from the defects inherent in many existing forms of enterprise reform./

Before the institution of the system of responsibility for asset management, most experimenting cities and responsible departments had undertaken experimentation under one or several enterprise reform schemes, the overwhelming majority of which did really produce fruitful results. However, these schemes have generally encountered problems. First, in the design and implementation of these schemes, some new brands of defects of systems have been stamped on the enterprises, and many new precedents have been set, particularly those resulting in expansion of consumption. Second, the traditional systems governing the enterprises were not profoundly changed; for example, the effect on curbing investment and the expansion of consumption was small. In particular, the enterprise leadership system was not radically changed. Third, the experimenting enterprises encountered new problems; for example, their behavior became overly geared to short-term interests,

conflicts between factory directors and workers were difficult to resolve, and so on. These unavoidable difficulties have caused some cities to choose the system of responsibility for asset management scheme, which requires the enterprises to incur the highest "opportunity cost" in the short term because compared with other enterprise reform schemes it requires the enterprises to enjoy the least enhancement of interests which the state grants as a concession but shoulder the greatest responsibility and obligations. However, the practice of experimentation under the system of responsibility for asset management shows that this system is to a considerable extent really free from those defects inherent in many other existing forms of enterprise reform.

The system of responsibility for asset management incorporates the leasing system's rational feature of prescribing independence of interests for an individual who assumes responsibility, powers, and benefits. By its nature, however, it overcomes the leasing system's three basic defects: First, the leasing system is applicable only within a narrow scope; in particular, it is not suitable for large and medium state enterprises; second, it tends to cause a scramble for equipment and cause the enterprises to gear their behavior to short-term interests; and third, because subjective judgment of leasing targets may be erroneous, and because "one obtains what remains after delivering what is due to the state and the collective" represents the basic incentive to operators, one who operates on a lease often earns an unrealistically high personal income, leading to ill feeling between the workers and the factory director.

The system of responsibility for asset management incorporates the shareholding system's features of reinforced constraint in relation to property and accommodation of different categories of property rights, but it places special emphasis on the requirement that the second-phase scheme which provides for the shareholding form of organization can be launched only when internal and external conditions are ripe, or at least when the simulated-market evaluation of existing enterprises' assets has been accomplished, that is, when the first-phase experimentation has been accomplished. Precisely because of this, it avoids the misappropriation of stocks of or increments to the state's assets, a common disadvantage of the shareholding system. In particular, it solves a problem which the shareholding system cannot solve, that of independent operational rights and separation of ownership rights from operational rights in connection with the state's assets or leading departments in charge of these assets.

In practice, many cities prefer instituting the system of responsibility for enterprise operation to instituting the system of responsibility for asset management, because the former entails simple operation and is effectual. In particular, tax concessions or conceding of interests by the state to the enterprises can serve as a lubricant at takeoff. Very often, however, in finally deciding on a specific scheme to implement, an even larger number of cities have to adopt some internal means of genuinely changing the enterprises' operational mechanism. Thus, many experienced men of action from experimenting cities say: "The system of responsibility for enterprise operation must eventually approach the system of responsibility for asset

management as a goal." This is because compared with the system of responsibility for asset management, the system of responsibility for enterprise operation has an added feature which the former strives to reject, namely, lubricated takeoff facilitated by tax concessions and conceding of interests by the state to the enterprises; but it lacks the very soul of the former, namely, the opportunity for competition, that is, bringing forth entrepreneurs through open invitation of tenders, and evaluating assets through market competition. Here, two points must be noted: First, whether the evaluation of assets is undertaken, rather than whether it is accurate, is of primary importance. If an economic mechanism conducive to this evaluation is absent in our existing economic relations, no reform scheme can ever genuinely free the enterprises from the fetters of the traditional system. Second, between the accuracy of evaluation and the quality of entrepreneurs emerging through the open invitation of tenders on one side and the transaction costs of evaluation and open invitation of tenders on the other side, there is a strong relationship of substitution. The additional transaction costs for having a higher-quality entrepreneur or a more accurate evaluation is possibly negligible compared with the increase in profits achievable after the entrepreneur has assumed office or the increase in the state's earnings from the evaluated assets. Moreover, with the increase in the number of experimenting enterprises, economies of scale will greatly reduce transaction costs.

Compared with various contractual responsibility systems, the system of responsibility for asset management has the unique function of changing enterprise operation mechanisms. It can circumvent the danger, which tends to occur under contractual systems, of directive planning and structural imbalance becoming perpetuated. It also precludes haggling, which is unavoidable under contractual systems. Its institution does not call for the prerequisite of fiscal concessions in taxation or conceding of interests by the state to the enterprises.

Currently, many forms of reform should be allowed to coexist in the deepening of the enterprise reform. The superior can be selected only through competitive elimination. However, the elimination of certain schemes and selection of superior ones should not be based on disorderly competition. Instead, there should be generally accepted or unified "rules of competition" in crucial aspects. Here, two criteria for alignment should be noted: First, various schemes should provide equal incentive to enterprises in terms of tax concessions and conceding of interests; and second, the responsibility and constraining obligations conferred on various enterprises should be equal. Only thus can we end the convention whereby various schemes overlap at a low level, and can we finally embark on the path of discovering the optimal enterprise reform scheme.

II. Learning Reform Through Reform Itself: Obstacles to the Making of Entrepreneurs

Various problems will inevitably arise in practicing the system of responsibility for asset management. Many problems are obstacles encountered

in pioneering explorative work in practicing that system as a reform of enterprises' core mechanisms. Therefore, this is neither simply a question of deviation of specific implementation from designed schemes due to many uncertain factors, nor a question of subjective errors in practical operation. A more profound reason is that a basic change of enterprise-operation institution, the defining of the role of operators, owners, and producers in connection with property relations, and the full manifestation of the results of reform have to undergo a prolonged course of development and maturation. Learning reform through reform is the only path to success for any reform, including the practicing of the system of responsibility for asset management.

/1. Who will select the desired enterprise reform schemes?/

Concurrently with the launching of experimentation with the system of responsibility for asset management, experimentation is being undertaken under other enterprise reform schemes, like the system of factory director's responsibility with prescribed targets to be fulfilled during the term of office, the leasing system, contractual systems, the shareholding system, and so on. Thus, the selection of desirable schemes is the first problem encountered in enterprise reform.

Obstacles encountered by the system of responsibility for asset management in the competitive selection of enterprise reform schemes do not arise from any defects of the system itself, but from the question of who will select reform schemes. Are they the representatives in charge of state property, or the original factory directors and managers of the enterprises? In some provinces and cities, where the enterprises are free to select their own reform schemes, the majority of enterprises are keen on choosing contractual, leasing, or shareholding systems, while a minority of enterprises choose the system of responsibility for asset management. This is partly because the enterprises are most willing to accept those schemes which impose relatively soft restraints on themselves and which maximize their benefits, and partly because the system of responsibility for asset management sets higher demands on operators. Before an enterprise operation mechanism is transformed, operators will not voluntarily choose to restrain themselves more severely. Owners' basic powers lie in selecting operators and formulations rules of behavior for them to follow. From the very beginning, allowing the original factory directors or managers to choose their own reform schemes involves the hidden danger of softening the restraints on operators. Therefore, clearly assigning powers and responsibility over selecting reform schemes to owners or their representatives amounts to an inherent requirement for a smooth start to enterprise reform.

/2. Competition is limited by the very small scope of invitation for tenders./

In the designing of the system of responsibility for asset management, it was envisioned that two crucial questions, namely, the making of entrepreneurs and the simulated-market social evaluation of the state's assets, could be resolved at one stroke by the open invitation and competitive submission of

tenders. In actual implementation, however, for one thing, in some localities the scope of invitation of tenders is too small, and sometimes this scope is even artificially confined to the city, the industrial management system, or even the enterprise in question; and for another thing, because the openly published information furnished by the experimenting enterprises is not in order, bidders from the enterprises in question and bidders from other enterprises or localities are not placed on an equal status, and an even more serious problem is that the incumbent leading groups who want to submit tenders will, after internal discussions, purposely withhold some vital information from the public and artificially monopolize the bidding. Because reform of the personnel system is not compatible, the flow of successful bidders from their original units to the experimenting enterprises is restricted, further decreasing the extent of competition in bidding. In an initial phase of experimentation, it is difficult to completely eliminate these phenomena, particularly when transaction costs of inviting and submitting tenders cannot be effectively lowered. However, it should be noted that if this situation is allowed to freely develop, the principle of full competition will surely be violated and the quality of invitation of tenders and bidding will be lowered.

/3. The tendency to depress prices in computing offer-price floors./

Before inviting tenders, a responsible department must make a preliminary forecast about the price of an enterprise's assets according to changes in the enterprise's profits over the past several years, the relevant industry's average profit rate on capital, the conditions of operation and management of the enterprise, its purchases and sales on the market, its development of new products, and so on. Thus, a base figure is made available for internal control and it must be absolutely kept secret from outsiders. According to regulations, if all profit figures quoted by bidders fall short of the base figure, these bids can be temporarily kept secret in replying to enquiries, and competitors should be allowed to take turns to submit tenders. Considering the situation of experimentation in various localities, in the actual forecasting of minimum offers for profits, the responsible departments play the main role, with the assistance of comprehensive departments like financial and taxation departments, in computing the profits that the enterprise should earn in various years of operation. When the restraining mechanism is defective, the computed minimum offers for profits are often underrated. For example, in order to achieve more conspicuous results in experimentation, some localities adopt a relatively conservative attitude to the anticipated price floor for assets, that is, there is tendency to depress bid prices. Some tender-inviting units even expressly stipulate that a bidder will score full marks if his quoted profit exactly equals the unit's base figure for internal control, and marks will be deducted if the quoted profit is higher or lower. Obviously, this practice will not only reduce owners' income and artificially lead to devaluation of the enterprise's assets, but will to a certain extent soften the budgetary restraint on the operators. This shows that the relevant tender-inviting units, as representatives of owners of the state's assets, actually do not really care about the enterprise's assets.

/4. The problem of the paradoxical position of enterprise staffers in assessment and evaluation committees./

After bidders have submitted profit figures according to their own understanding of an enterprise's condition, the responsible department will itself organize an assessment and evaluation committee to query bidders in a sequence according to their scores as determined by the profit figures they quote, so as to select the successful bidder. Considering the situation in various cities, an assessment and evaluation committee generally comprises three types of people: 1) representatives of the responsible department; 2) representatives from various comprehensive department, that is, the State Commission for Restructuring the Economic System, the State Economic Commission, the State Planning Commission, and the financial, taxation, banking, auditing, and notaries' departments; and 3) staff representatives of the enterprise. Generally speaking, the distribution of voting rights give the responsible department 40 percent, the comprehensive departments, 20 percent, and the staffers of the enterprise, 40 percent. In selecting the successful bidder, the assessment and evaluation committee actually functions as the owner of the state's assets. Because this function is split among various departments, and in particular, because comprehensive departments like the banking, financial, and taxation departments also shoulder some responsibility for managing the enterprise's assets, allowing these departments to participate in the assessment and evaluation committee can help reflect the full range of representation in regard to the state's assets. The problem is whether the ratio between the responsible department's and the comprehensive department's voting rights is rational. More important, in what capacity should staff representatives join the assessment and evaluation committee? If these representatives remain outside this committee, this will be incompatible with the demand set forth in our socialist enterprise reform for having staffers play a prominent role as masters. But if they participate in assessing and selecting the operators, and possess a substantial share of voting rights, then the workers will surely play a greater role in exerting pressure and deterrent power on the operators, so that the restraints on the operators will certainly soften, leading to a hidden danger of expansion of the enterprise's consumption funds.

/5. Haggling in signing contracts for undertaking operational responsibility./

In various experimenting cities, once a successful bidder has been chosen, he and the responsible department will sign a contract undertaking operational responsibility which is drafted by the responsible department. Before the signing of this contract, however, the problem of haggling will usually occur. For one thing, the responsible department will haggle with the financial, taxation, and banking departments. The former invariably hope to set many precedents favorable to the enterprise, or to itself in the final analysis, in regard to matters like decreasing profit taxes, raising charges for the use of assets, and whether loans should be repaid before or after taxation. For another thing, when the responsible department haggles with the enterprises, not only must every stipulation on the contract be agreed upon through

bilateral negotiation, but the operator will take the opportunity to openly bargain with the responsible department over numerous details concerning the enterprise's operational activities. Here the reasons are rather complicated. One reason is that people do not fully understand the nature and characteristics of the system of responsibility for asset management; for example, in openly inviting tenders, the responsible department does not clearly inform the bidders about constraining conditions other than profit offers. Another reason concerns the more profound question of system-related background, that is, the problem of owners has not been solved; for example, in haggling with the operator the responsible department leans toward the owners, but in haggling with the financial department it will unconsciously lean toward the operator. This dualistic behavior reflects in depth the responsible department's characteristic of acting as both the owner's representative and an administrative department, so that its own interests are not clearly defined. Haggling clearly bears the mark of soft budgetary restraint. In particular, when the operator goes so far as to treat his profit-bid, which is the basis for his success in bidding, as a chip he can use for haggling, the rationale behind the system of responsibility for asset management is undermined or even negated by practice.

/6. Difficulties in instituting management boards, and deviations from these boards' proper role./

Under the trial scheme of the system of responsibility for asset management, it has been envisioned that in tackling the relations between the operators and owners, a management board can be established at the enterprise to serve as the highest decisionmaking body and the representative body in charge of the legal-person enterprise's ownership, and it will be separated from the ultimate owners or their representatives. In carrying out the trial scheme, many cities have also formulated corresponding stipulations. Actually, however, only some enterprises have instituted management boards. Moreover, the role of these boards has deviated substantially from what has been envisioned in designing the scheme. For example, the management board of the Zhuzhou Synthetic Resin Factory consists of representatives of its responsible department, the banking, financial, and taxation departments, the State Commission for Restructuring Economic System, factory directors of other enterprises, and the staff of the factory itself. Because the factory was nearly bankrupt and every year deficits had to be made good through fiscal subsidies, the successful bidder particularly hoped to have a special group vested with special interests to help the factory overcome its difficulties with the support of its responsible department and the financial and banking departments. Proceeding from their bodies' own interests, representatives from various quarters have willingly endeavored to help the enterprises; for example, the banks want to recover loans, and the financial department wants to reduce subsidies. Therefore, this management board is merely a body through which the enterprise coordinates its external relations, rather than a legal person serving as the representative in charge of the state's assets. A clear delimitation of legal-person owners' and ultimate owners' jurisdiction and the formulation of a steady mutual-restraint relationship between the two parties constitute a prerequisite for establishing the model of owners at two

poles. If conditions are not ripe, it will be very difficult to set up a management board, or if a management board is set up unjustifiably, it will either be useless or deviate from the necessary planned functions.

/7. Dualistic contradictions concerning rules for selecting successful bidders./

Assessment and evaluation committees mostly appraise interviewed candidates by using secret ballot and calculating combined scores. To have common norms for appraisal, various localities have adopted the method of calculating scores as the rule for selecting successful bidders. The main items affecting a bidder's score are the profit he bids and his personal particulars and plan for future operation. Considering the actual process of assessment, the bid profit carries a weight which ranges from a maximum of 40 percent to a minimum of 25 percent, and is mostly around 30 percent. The bidder's personal particulars, including his educational standard, age, qualifications and record of service, and so on, account for 30 percent. His operation plan accounts for around 40 percent. This method differs from the overly simple method in the Li-si-ka (96849 2448 0595) Model whereby the bid profit is the sole criterion for selecting the operator. (Footnote 1) (Li-si-ka is a Hungarian economist. He proposed a unique idea about the model of socialist economy. He advocates the system of ownership by individual members of society, that is, every citizen should enjoy the right to demand the direct manipulation and operation of any constituent part of assets owned by society, but only one who through the fullest competition shows that he can bring the highest income to society can operate and manipulate property owned by society.) However, it should be noted that a bid profit is a very practical measure if expressed in monetary terms. When it is used as the only assessment criterion, it represents a very clear signal to both bidders and the tender-inviting party. Therefore, in the Li-si-ka Model, bidders' behavior and also the tender-inviting party's behavior in selecting operators are also standardized. In our case, when the rules for selecting successful bidders include some factors which cannot be measured in monetary terms, they become a set of dualistic rules for selection. Such rules are more practicable under current conditions, and can also guide bidders and the tender-inviting party to act rationally if they are appropriately handled, but it is more probable that a bidder will purposely lower his bid price if he thinks he can obtain a high score by virtue of various nonmonetary factors. Moreover, the tender-inviting people may also inappropriately overrate the nonmonetary factors in selecting operators, and purposely use loopholes in the dualistic rules to reject even the most outstanding competitors if they do not have close relationships with themselves. In experimentation, the original factory directors of some enterprises which have relatively great potential did not bid very high profit figures, but were finally selected. This fact to some extent bears out the argument above.

/8. The conversion of assets into shares and irrational tendencies in this conversion./

In some cases the shareholding system is incorporated into the system of responsibility for asset management in certain ways, or the latter is integrated with the shareholding form of organization under suitable internal and external conditions. This is a useful exploration which plays a very prominent role and has great significance in mobilizing the producers' or enterprise staffers' enthusiasm. Some localities have now formulated schemes for the system of responsibility for managing assets represented by shares. Some individual units have begun experimentation and gained some initial experience. It should be noted, however, that the development of the shareholding system entails a historical process. If the shareholding-system model is artificially constructed before internal and external conditions are ripe, then it will be necessary to take a tortuous path, and moreover, there will be adverse effects on society and the reputation of reform may even be marred. According to past experience in experimenting with the shareholding system, the following errors and problems may rather readily occur: 1) The tendency to misappropriate earnings from the state's assets: Some enterprises issue share certificates to their staffers before converting the existing state-owned assets into shares. This essentially amounts to transferring to staffers in the form of high dividends some earnings which should accrue to the state's assets. This creates new precedents for increasing consumption funds. Theoretically, this practice infringes on legal rights to state-owned assets and must be prohibited. 2) The tendency to carve up the state's assets: Some enterprises nominally convert existing state-owned assets into shares, but they also distribute some of the shares to their staffers without any justifiable grounds. If the practice mentioned earlier amounts to infringing on the legal rights to increments to state-owned assets, this practice amounts to infringing on the legal rights to the state's stock of assets and must similarly be prohibited.

III. Owners and Producers: "The Orientation of Deepening and Sublimation of Reform"

The system of responsibility for asset management represents a profound socioeconomic change and will inevitably involve a readjustment of both relations of interests and rules of behavior of the basic economic main-bodies in society (owners, operators, and producers). Moreover, this system is also affected and constrained by various factors, ranging from macroeconomic to microeconomic ones, and including economic, political, social, cultural, and other factors. Therefore, only by carrying out in-depth theoretical deliberations with a broader background in mind can we accurately master the orientation of deepening and sublimation of the reform represented by the system of responsibility for asset management, and can the healthy development of experimental work be ensured.

/1. Operators: the starting point of the enterprise system reform./

Solid progress has been achieved in China's urban economic reform which centers round enlivening the enterprises. However, it should be noted that this progress has been accompanied by various undesirable phenomena, for example, enterprises act irrationally, microeconomic results have not markedly improved, investment and consumption have generally grown rapidly, and in particular, it is difficult to deepen the economic reform by continuing to adhere to the concept of delegating powers to lower levels and conceding of interests by the state. Here the crux of the problem lies in the fact that whereas we have been delegating powers to lower levels and conceding interests, we have not paid attention to tackling the restructuring of the economic main-bodies that take over these powers or interests, and in particular, we have not in the first place devoted special efforts to solving the problem of operators.

Independence of the operators' personal interests and a strong sense of responsibility toward the assets entrusted to the operators' care by the owners should rightly be the logical and historical prerequisites for successfully separating ownership rights from operational rights. Under the traditional socialist-system model, however, operators, even in the minimal sense, do not exist. The factory director and managers of an enterprise are merely administrative government officials appointed by the responsible department. His personal interests are integrated with the enterprise staffers' interests, but are not linked in any direct way to the management of the enterprise's assets. Therefore, the preconditions for separating ownership rights from operational rights can neither be created under the traditional system nor spontaneously emerge and become ripe in the course of reform. Under this condition, the methods of delegating powers to lower levels, conceding of interests by the state, or directly handing over operational rights to the enterprises as main-bodies where interests are intermingled confusedly, basically cannot genuinely solve the problems of entrepreneurs and operational rights; on the other hand, the malady of abuse of powers will probably arise. Moreover, owing to the natural orientation of relations of interests, the factory directors or managers of enterprises, instead of consciously safeguarding rights and interests associated with the state's assets, will unite with the staffers to undermine the state's resources. Consequently, the old problem of expansion of investment cannot be solved, and moreover, there appears a new trend of expansion of consumption funds. To sum up, the crux of various problems emerging over the past several years in the enterprise system reform lies in failure to solve the problem of operators or the problem of personification of property relations at the level of operation. The budgetary restraint of enterprises has still been soft.

The system of responsibility for asset management has been designed on the basis of an all-round generalization and review of China's practical experience in economic system reform and according to the guiding idea of "proceeding from property relations to restructure the Chinese economy's microeconomic foundation." Moreover, special emphasis is placed on making the high-powered solution of the operational rights problem the core of our

first-phase enterprise reform. The initial success in experimenting with the system of responsibility for asset management and the consequent emergence of the "revolution in operational rights" can undoubtedly bring new inspiration and hope to greet the further deepening of reform.

Of course, a fair appraisal of the historical role and significance of the system of responsibility for asset management does not imply glossing over problems and difficulties encountered in the current experimentation. We have said that in the implementation of our scheme problems of one kind or another will appear at nearly every link. On the surface, these problems are partly due to our overly idealistic consideration of certain factors in designing the scheme, and partly due to errors or incompatibility of certain internal or external conditions in implementation. Considered from the high plane of theory, when operators have emerged and a restraining mechanism has been instituted, the normal functioning of this mechanism will both depend on the flexible coordination of other areas and necessarily cause shocks and repercussions in the core structures of society and economy, and will bring out a historical demand for the deepening and sublimation of reform, that is, a demand for gradually achieving the personification of property relations at the level of owners and their representatives and redefining the producers' role and status in the socialist enterprise.

/2. Owners: Deepening of the enterprise system reform./

The system of responsibility for asset management strives to remold the enterprise as the cell where microeconomic activities take place, under the framework of public ownership. Therefore, it will change and readjust only the form of organization and realization of public ownership, certainly not its nature. This involves solving the problem of optimizing the behavior of representatives of owners and the problem of straightening out the economic relations between the owners on one side and operators and producers on the other. Judging from the relevant enterprises' experimentation with the system of responsibility for asset management, the revolution in operational rights has both helped start an ownership rights reform and made this reform a new starting point in further reforming operational rights.

Ambiguity in ownership rights is precisely what has remained largely unchanged in the development from the traditional model to the current system. Today, the virtual nonexistence or carving up of property rights are still the basic defects of the economic system. The softening of budgetary restraint and the problem of eating out of the collective big rice pot, as they are usually termed, are merely external forms of these defects.

The gravest disadvantage of the virtual nonexistence of property rights is that at the owners' level the personification of property relations is impossible, or, there is no regular, direct link between the interests related to state-owned assets and the personal interests of the owners of representatives of owners of these assets. The fact that the state is the owner of state-owned assets in the context of today's actual economic relations is surely not an abstract concept, and the owner's function is

actually performed by the relevant government agencies or officials. This readily leads to misconceptions and also ignorance of the fact that the interests related to state-owned assets cannot be safeguarded if the officials managing the assets do not have a strong sense of responsibility toward these assets which tallies with their personal interests.

A further problem is: It is conceivable that the government officials who perform owners' functions do have some sort of economic responsibility and interests that are linked to public property. However, in economic activities the state has a double identity of being an administrative organization and an owner, and the government officials also directly but ambiguously perform both government administration functions and owners' functions. Therefore, when there is no appropriate method of separating these two categories of functions and fulfilling each of them through corresponding agencies or departments, these two systems of functions will be in disorder. Moreover, very often, owners' functions are subordinated to administrative rules and are correspondingly split among various governmental administrative departments, so that their integrity and restraining power are destroyed.

The consequent problem does not lie in the fact that the government officials who perform owners' functions will themselves undermine and infringe on owners' rights. What is more serious is that they actually cannot genuinely restrain the operators. When irrational microeconomic behavior causes instability or serious undesirable effects in the macroeconomic arena, the state is forced to plug the loopholes by measures embodying a high degree of centralization of power. The result is that sort of poor efficiency which has frequently recurred under the traditional system. Actually, or at least in theory or according to logic, state ownership is not necessarily connected with a high degree of centralization of power. Under the condition of virtual nonexistence or carving up of property rights, however, people can only choose between "chaos" and "rigidity." This is the main reason for various maladies of the traditional system and the vicious cycle, which has happened in reform, of "delegating powers to lower levels--recalling the powers."

The virtual nonexistence of property rights leads to problems in enterprise reform. The main problems related to the system of responsibility for asset management are:

1. "Transaction costs" are increased. Through inviting and submitting tenders, the system of responsibility for asset management has solved the problems of emergence of operators and selection of good ones. However, this method is rather complicated, involves relatively high transaction costs, and in operation readily leads to various errors mentioned earlier. However, where the problem of owners has not been genuinely solved, so that responsible departments continue to select and appoint leading cadres of enterprises according to administrative rules rather than owners' interests, the selection of the best through social competition can only solve the problems of emergence of entrepreneurs and evaluation of assets. Under this precondition, any tentative attempt to lower transaction costs by abolishing the invitation and submission of tenders means mutilating the mechanism of development of

entrepreneurs and evaluation of assets; the inevitable result is that the operator will be of far lower quality and it will be impossible to really eliminate the vestiges of administrative appointment and the state enterprises' appendage of relations of administrative subordination and eating out of the collective big rice pot.

2. The restraining of operators is weakened. In the theoretical construction of the system of responsibility for asset management, both a mechanism of making of operators and a mechanism for restraining operators' behavior have been designed. Before the problem of owners and their representatives is finally solved, however, the effectiveness of the restraining mechanism at various links of the process of transformation of the enterprise operation mechanism is greatly reduced. Theoretically, the operators' behavior is ultimately prescribed by owners. Therefore, although a revolutionary advance has been made in solving the problem of operators by using the competition mechanism and simulated-market methods of inviting and submitting tenders and evaluation of assets, solving the problem of owners will undoubtedly play a crucial or decisive role if the operators' behavior is to be optimized.

/3. Owners: the path to deepening enterprise reform./

Instituting state-owned assets management bureaus to strengthen owners' functions represents a practicable idea. The greatest difficulty in instituting these bureaus concerns preventing the situation, which repeatedly occurred in past organizational reforms, of instituting redundant organizations and effecting changes in form but not in essence. People want to rely on restraining-by-interests alone to turn state-owned assets management bureaus into real representatives of owners. However, simple common sense suffices to tell us that any proportion of the existing system's income that can be afforded by it will not be sufficient for successfully restraining hundreds of millions of representatives of owners of state-owned assets. Actually, the success or failure of instituting state-owned assets management bureaus as a reform depends crucially on: First, external separation, that is, separating the system of representatives of owners from the system of government administration by pooling the currently split and scattered functions of owners; second, internal construction; and third, forming both external and internal restraining mechanisms. This report will discuss the first question only, because currently the most difficult and pressing job is to make the state-owned assets management bureaus assume the pooled functions of owners.

Today, just as under the traditional system, the functions of owners of the state's assets are blended with government administration functions and split among many bodies like relevant responsible departments, financial and taxation departments, banking agencies, and party organizations. This situation of blending and splitting is a major reason why no one can represent the interests related to the assets. Therefore, instituting state-owned assets management bureaus aims to separate the two currently intermingled categories of functions and to assemble the split functions of owners; only thus can the functions of representatives of owners become full and complete.

True, bringing the functions of representatives of owners to fullness entails a historical process of gradual maturing, which particularly requires gradually transferring the right of ultimate ownership of society's property from the state to all citizens in the light of the progress of socialization of production, and on this basis, enabling the whole people, who are ultimate owners of public property, to select, according to set procedures and under the guarantee of sound legal, cultural, and other arrangements, true representatives of their own interests to manage social property. However, in the light of the need for achieving compatibility with the current system, this development can only be the step-by-step separation and assembly of the following sequence: the right to select operators--the right to claim economic returns--the right to dispose of economic returns--the power to control the use of assets. Along this line, the development of the state-owned assets management bureaus, which at the present stage embody the development of functions of representatives of owners toward fullness, can be roughly divided into the following four stages:

The first stage consists in solving the problem of the right to select operators. At this stage, the main job is to transfer to state-owned assets management bureaus direct decisionmaking powers and indirect intervention powers over selecting operators, which are currently split between bodies ranging from government bodies like responsible bureaus to party organizations. In this connection, a considerable proportion of enterprise system reform work, like the selection of experimenting enterprises, the evaluation and reevaluation of assets, the selection of successful bidders, signing operational responsibility contracts with operators, and so on, should also be correspondingly transferred to the state-owned assets management bureaus, so that these bureaus will be true representatives of owners in selecting operators.

The second stage consists in solving the problem of the right to claim economic returns. In this stage, starting from a situation where substitution of profit-delivery by taxation has led to the intermingling of taxation and profit-delivery, returns from assets will be separated from the state's tax revenue through separating the flows of taxes and profits, and the right to claim returns from assets will be transferred to the state-owned assets management bureaus. This reform will not only entail a reform of the entire financial and taxation system, but will also necessarily entail a reform of the investment system. In order to ensure the success of key state construction projects, and more importantly, the success of macroeconomic management, the profits received by the bureaus should also be delivered to the financial authorities prior to the full launching of the investment system reform, but a certain proportion of profits should also be retained by these bureaus so that their enthusiasm can be mobilized and they can be partial representatives of owners in terms of the right to claim economic returns.

The third stage consists in solving the problem of the right to dispose of economic returns. The key job of this reform is to transfer the right to dispose of economic returns to the state-owned assets management bureaus. This must be coordinated with the investment reform, particularly reform of

the system of investment in key state construction projects and the financial system reform. Before a major change of the investment system, part of the existing powers over initiating and investing in new projects and examination and approval of investment can be delegated to the state-owned assets management bureaus so as to achieve the balanced and steady separation of investment functions.

The fourth stage consists in solving the problem of the power to control the ultimate use of assets. The entire difficulty of the work of this stage does not concern assigning to the state-owned assets management bureaus the power to control final use in line with the modern meaning of property rights, but concerns the overall defining of property-rights limits governing ownership of the state's assets by the central authorities at many levels, and concerns the full consideration of the question of construction and internal relations of a national assets management system. In a strict sense, neither existing departments in charge of enterprises nor any other government bodies really possess the full power to control the final use of property. Therefore, under current conditions, the establishment and assignment of this power does not simply represent readjusting an existing stock of power. Therefore, compared with the several previous stages of ownership reform, this stage resembles "building a new building" rather than "repairing and extending an existing structure." Only when the fourth-stage reform has been accomplished can the state-owned assets management bureaus really become fully representatives of owners and can the state's assets be reallocated throughout society.

/4. Producers: sublimation of enterprise reform./

In current experimentation, the operators show marked motivation for curbing any expansion of investment, but their ability to curb increases in staffers' income or consumption funds is rather weak. A natural reason is the abovementioned virtual nonexistence of ownership rights. This softens both the owners' direct restraining of producers and their indirect restraining of producers through the operators.

However, a more important question is the ambiguous status or erroneous role of producers in a publicly-owned enterprise. This makes it very difficult or even impossible for operators to withstand the pressure imposed by producers or correct their behavior. The common and specific reasons are: 1) Judging from the mechanism that causes investment and consumption to expand, the motive force behind the expansion of an enterprise's investment mainly arises in the operators' motives and interests, but an expansion of consumption is to a greater extent caused by the producers' pursuit of enhanced interests and the consequent strong pressure they exert. Therefore, operators subjected to pressure will directly restrain investment, but they can only indirectly and relatively feebly curb consumption. 2) Both rewards and penalties are small. It is difficult to effectively isolate the operators' personal interests from the enterprise's overall interests, so that the operators are powerless to resist the staffers' strong demand and pressure for increasing income. 3) A labor market has not been formed. A social unemployment benefit scheme is

also absent. Thus, operators do not have the necessary means of regulation, and the restraining force for curbing an expansion of consumption is weakened.

Further analysis shows that the problems and difficulties are more complicated and profound than they appeared in our original conjectures. In designing the plan for the system of responsibility for asset management, we said that the dynamic equilibrium between accumulation and consumption in enterprises, that is, the optimal allocation of the enterprises' after-tax profits, would be the pivot determining success or failure in fully constructing the mechanism of operation of publicly-owned enterprises. (Footnote 2) (See "The Bridge Linking Public Ownership to the Commodity Economy--Third Treatise on the Problems and Ideas About China's Further Reform," in "Jingjixue Dongtai" [Trends in Economics], No 12, 1986) At that time, it was envisioned that a nontypical enterprise management board could be set up and then through that board problems of an enterprise's behavior could be solved through balance of interests of the three parties: operators, owners, and producers. It now appears that we should more deeply analyze and grasp the real relations of interests between the three parties in the publicly-owned enterprise. In particular, we should concentrate our attention on the important but hitherto generally ignored question of the producers' special status in the publicly-owned enterprise. A basic fact is that whether the interaction of the three parties' forces in an enterprise management board can bring about equilibrium in interests and rational behavior depends neither on the existence of representatives of the three on the board, nor on assigning voting rights to the three parties according to certain unequal proportions, but on equilibrium in the real relations of interests between the three parties of the entire enterprise. The unity or opposition of the three parties' forces on the management board is merely an external form of these real relations of interests. Therefore, if the real interests of the three parties of the enterprise are in disequilibrium, the management board will not, or rather cannot, do anything that can basically help.

Thus, when operators have been singled out and owners have begun to be assigned a more solid role, defining the producers' status will be the main line of attack in the sublimation of the reform of publicly-owned enterprise. However, the producers' status in the publicly-owned enterprises is precisely a frequently ignored question in separating ownership rights from operational rights in the reform of state enterprises. Because people's attention has been excessively attracted by the tackling of the relations between owners and operators, people often consciously or unconsciously view the producers as a factor which bears little if any relationship to the separation of the two categories of rights, so that a series of unrealistic theories have appeared which are divorced from China's conditions. Neither factory directors, nor responsible departments or workers themselves, know for sure whether workers are producers or producer-owners. A special confusion about the workers' status is that if a worker has a double identity, then in what arenas is he a producer and in what an owner? Therefore, in real life, the phenomenon of workers playing a wrong role has frequently occurred. Workers are in a perfectly passive position in general aspects. Democratic participation in management exists in form only. Although theoretically staffers are supreme

masters, pyramidal multi-level management determines all specific norms of behavior, and currently enterprise staffers' councils often exist actually as "second labor unions." In the most crucial aspects, however, staffers are in a powerful position, resulting in an irresistible and ever-growing pressure for increasing incomes. This causes a problem affecting operational rights: although in general aspects operators can be free from any restraints imposed by producers, in crucial aspects like income distribution they are in a plight, having no alternative but to comply. Therefore, currently, while in dealing with external relations a factory director must fix one eye on the market and the other eye on the responsible government department, in dealing with internal relations he has no alternative but to put half of himself on the owners' side and half on the producers' side. When an operator yields to this pressure, his own behavior will inevitably be distorted and deviate from the principles and orientation of reform. In this sense, just as the question of owners directly affects operators' behavior, the producers' status and also the defining of the interrelationships between them and the operators greatly, or rather decisively, affect operators' behavior.

Thus, the final accomplishment and sublimation of the reform of publicly-owned enterprises requires more than considering things as they stand and solving various specific problems. We must proceed from the basic fact that China is undergoing an elementary stage of socialism and tackle at the basic level the readjustment of the currently erroneous role of producers and the defining of producers' status in the enterprise as a whole. In particular, we must ascertain whether workers have the double identity of producers and owners and clearly delimit the ways and realism in which they function as producers or owners.

In defining the status and role of workers of publicly-owned enterprises, we can proceed in two different ways. First, we can proceed in the orientation of determining workers' status by reference to the labor market alone. Because this method ignores the nature of publicly-owned enterprises, it is difficult for it to serve as a future goal. Moreover, it disregards the degree of maturity of China's labor market at the present stage, so that perhaps it cannot solve immediate problems, just as distant water cannot quench one's thirst, or perhaps if it is rashly advanced it will cause widespread unemployment, generating enormous political and social shocks. Therefore, it is very difficult for the method of proceeding along the line of the labor market alone to be the current choice. Second, we can advance by the double-track method of determining workers' status by integrating and coordinating consideration of the external labor market with consideration of internal and external ownership system. Today, both in theory and in practice, the simple question of whether we should create a labor market no longer exists. The pertinent question is whether the labor market can make the behavior of workers of publicly-owned enterprises rational. In particular, we must grasp the relationship between workers' behavior and the labor market. We must ask: what kind of labor market structure can make workers' behavior rational? On the other hand, that form of ownership right whereby workers of publicly-owned enterprises are external owners cannot yet develop into a satisfactory form at the present stage. It can be realized

only when all-round political and economic system reforms have deepened and economic and social development is successful. Currently, an effective method is that workers can be made internal owners of their enterprise's means of production. The workers of an enterprise can possess property rights over part of its assets through the transfer at a price of a certain part of state-owned assets earmarked by the enterprise. There are many kinds of intra-enterprise ownership rights. Practice has repeatedly demonstrated that relying solely on ownership by individuals or collective ownership will result in unstable and non-optimal operation. Therefore, this cannot be the dominant option in the reform of intra-enterprise ownership. If ownership by individuals and state ownership, both instituted on a partial basis, are integrated to form a main body, then the entrance of individual or group ownership rights from outside can be accommodated, so that a rational flow of funds and labor force can be ensured, and also a precondition can be created for the genuine establishment and separation of producers' double identity. Only thus can the behavior of producers at publicly-owned enterprises really become rational and optimal, and can the system be well-received eventually by all workers of publicly-owned enterprises.

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GROUP REVIEWS INVESTMENT SYSTEM REFORM

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[Text] 1. Since the 3d Plenary Session of the 11th CPC Central Committee, our country has made certain reforms of the fixed assets investment management structure, broken the previously highly centralized unified state, and formed a new pattern with diversified channels of raising funds and pluralistic investment principals. A large step forward was taken in bringing up an investment mechanism which has vitality and initial results have been achieved. However, changes have developed in the investment mechanism and this has added to the difficulties of effecting macroeconomic control. At the present moment, the effects of the macroeconomic regulation have not been exactly to the people's liking and the problem of the overly large investment scale has not exactly been settled. Hence, in summarizing the general experiences and lessons from the reform of the investment structure, particular attention should be given to the problem of investment inflation.

I. Changes in the Investment Mechanism

2. To date, the principal measures taken in the reform of the investment management system, such as delegating the decisionmaking authority in investments to lower levels and changing state appropriations to bank loans, are in nature meant to play their role within the sphere of planned management and the domain of investment activities inside the budget and to arouse the activism of the management departments at various levels and the enterprises to make lively use of their funds and to strengthen the responsibilities of the fund users. They are intended to appropriately increase the space of autonomous activities of the various economic principal bodies, within the framework of planned management, supplementing it with certain economic regulations so that the investment activities inside the plan will have an increased vitality without getting out of control.

3. Nevertheless, the most important changes within the realm of investments have not been the developments in the reform of the planned management structure but the rapid expansion in extra-plan investment activities. In recent years, such reforms as expansion of the enterprises' decisionmaking power, profit retentions by the enterprises, and separation of powers in finance have increasingly separated investment activities from planned control. The enterprises have deviated from the past practices of demanding financial appropriations for the purposes of investments to demanding and seeking increases in their self-owned funds and have changed from the past method of seeking close relations with the upper-level financial departments to trying their best now to dissociate themselves from the financial departments, endeavoring to free themselves from the control of national finance. At the same time, following "each person eating from separate pots" in finance, the local governments not only are concerned with seeking self-balancing in local finance but also pay special attention to opening up financial resources outside the budget. By so doing they have aided the trend of diverting the enterprises' funds from the regular financial channels. Local governments and enterprises are now depending on the daily increasing extra-budgetary funds to expand their investments in areas outside the control of the central government. These kinds of investment activities which go against the direction of the central government's financial regulation measures are currently increasing to become the main forces.

4. The distribution of the national income has leaned in the direction of the microeconomic domain, the accumulation functions are downgraded, and there are changes in the accumulation mechanism. Before 1978 the accumulations of the Central Government had been predominant. After 1979 this situation underwent a great change. The central government's accumulations steadily decreased while the local governments' accumulations and those of the enterprises steadily increased. In the past, the pattern of the central government's accumulations being the principal body required the central government to concentrate sufficient funds in support. The power and amount of distribution of the national income wherever possible tended to fall to the central government which directly and from the plate of the national income arranged for the ratio between accumulation and consumption and, within this general framework, also arranged for the investment scale and the gross volume of salaries and wages. In general this pattern of operation rendered it difficult to engender an excess distribution of the national income. In recent years, the proportions of investments by local governments and enterprises have risen. This is necessarily accompanied by a fall in the amount of dispersed and circulating funds which the central government can gather and dispose of. The investment scale is no longer unilaterally determined by the central government's direct arrangements. Rather, it is determined by the volume of investment funds which the various investment principal bodies can gather together and of this amount a large proportion has been converted from savings of income of a consumption nature. Conversion of a portion of the savings from income of a consumption nature could cause a benign change in the accumulation mechanism, namely, a shift from a not too successful road which has long been in operation and which featured low income, low consumption, and high accumulation onto a road which features

income receipts which can rise faster than the rise in consumption expenses and which thus maintains the stimulation to the microeconomy and at the same time realizes a higher rate of accumulation. Unfortunately, at present our country still lacks the types of financial organs which can absorb for a prolonged period large amounts of savings from households and also lacks business units offering stock and share investment facilities for private individuals. Moreover, there is very narrow space for the conversion of income of a consumption nature to funds for accumulation while in the assembling of accumulation funds (such as floating of treasury bonds) the central government has to bear a rather high cost of outlay. On the other hand, the local governments and enterprises can more readily make use of scattered idle funds (including savings from income and receipts of a consumption nature) to carry out investments. When the distribution of receipts or income of a consumption nature is excessive and the trend for consumption becomes stronger, the central government's tendency for investment may also be strengthened and with the various investment principal bodies all resorting to their own expedient means to raise funds for investment, the excessive distribution of the national income is aggravated. Although the receipts from the excessive distribution may not all at once become current demand, yet the savings are subject to call at all times. This and the daily increasing internal and external indebtedness together with the accumulated budget deficits of many years standing have exerted a great pressure on the central government.

5. The various kinds of fund raising and fund merging forms supplement each other but also compete with each other, pushing forward investment activities from different directions. Following the development of "bank loans in lieu of state appropriations" and the rapid growth in extra-budgetary funds, bank loans and various kinds of fund raising and fund merging activities which are outside the banks have also rapidly developed. In recent years these fund raising forms have become an important force affecting the investment activities. 1) In making up for the insufficiency of funds for the budgetary investment projects, the appearance of the diversified fund raising forms provides support to the budgetary projects and softens the rigid character of budgetary investments. However, it frequently happens that those raising the funds have used the nonbudgetary funds on those investment projects in which they were most interested and in the event of jointly investing in a combination of projects making use of various funds such as self-raised funds, credit and loan funds, and financial funds, it is quite possible that the budgetary funds become used on extra-plan projects. 2) The practice of "bank loans in lieu of state appropriations," through the application of credit levers, can strengthen the building units' enthusiasm for improving the efficiency in the use of funds. But banks have an operation mechanism which is different from that of finance and quite possibly the funds from "bank loans in lieu of state appropriations" may tend to deviate from the pre-determined direction of the budgetary investments. For example, if the practice of "bank loans in lieu of state appropriations" fixes a high interest rate on projects for goods in abundant supply there is the possibility that not only can the demand for funds by investors on goods in abundant supply not be checked or subdued but also the banks may be encouraged to increase their

loans to investors in goods in abundant supply. Contrarily, the practice of "bank loans in lieu of state appropriations" may also affect the bank's credit activities. Loaning out of budgetary funds through the banks is followed by various kinds of financial measures such as before-tax repayment of principal, exemptions from loan repayment, and a large number of administrative directives may upset the functions of the credit levers of the banks and virtually set up a "semi-finance department" in charge. 3) The diversified forms of fund raising and fund merging provide the enterprises and the local governments with a large scope for investment activities. Basically, this should strengthen the material liaison of the enterprises and autonomous development capacity of the enterprises could be increased. However, since the local governments usually organize the raising of large amounts of funds, the efforts smack of administrative methods and the funds are principally used on the investment projects which are actively supported by the local governments. Meanwhile, with the self-owned funds of the enterprises being thus drained away, the enterprises themselves face a shortage of self-owned funds for productive purposes and in turn a strong demand for loans from banks is generated. In recent years, bank loans have become the main source of the enterprises' funds and a new mechanism is being formed and developed with (?relies on) the banks as the center to push the enterprises' investments in fixed assets.

II. Causes for the Growth of Inflation in Investment Are Different From Those in the Past

6. Shift in the place of origin of investment inflation. In the past, the central authorities centralized to themselves the greater part of the investment power. Hence, investment inflation was mainly caused by the overly large scale of investments in the central budget. Since the reform, local finance, within the scope of the regulation of "eating from separate pots," has striven for self-balancing. As a result, central finance has suffered from the restrictions brought about by the power separation agreement. It can no longer draw funds at will from the localities or the enterprises and the central government can only restrictedly and frugally arrange for investments within the scope of the central budget. Thus, the possibility of a state of investment inflation throughout society due to the overly large investment scale arranged by central finance has been greatly lessened. On the other hand, the power separation agreement enables the local governments to step up their investments so as to enlarge their scale of receipts and expenditures. So far as the local governments are concerned, the limits of their investment scale are fixed by the amount of funds they can raise. Hence, they have all tried their best to raise funds and thereby to enlarge their investments. Due to the unevenness of various kinds of economic relations, the nation's power to restrict the gross scale of society's investment could not reach the local governments and the enterprises. As a result, the overly large scale of investments brought about total demand exceeding total supply and the capital construction environment deteriorated. As the gap caused by total demand exceeding total supply increased, the central government's investment activities were affected. Under the current system, investment inflation's damaging effects on the state budget are most direct and obvious. Hence, the

state budget's reaction to investment inflation is most sensitive. It can also react rationally and has the functions of self-restraint. On the other hand, the other investment principal bodies all lack the functions of self-restraint, depending only on the external pressure applied by the central government. Under this method of control, in the case of those investment principal bodies whose sources of investment funds include a portion from budgetary funds, this portion determines the extent of the control over their investments. In the case of the collective enterprises and the township and town enterprises, the principal sources of their investment funds are extra-budgetary funds; hence the degree of the control is rather small and, as a result, the growth speed of their investments far exceeds that of enterprises under the system of ownership by the whole people. Compared with the past, the place of origin and the leading portion of investment inflation have already changed, that is, from budgetary to extra-budgetary, from central to local and from whole people owned enterprises to non-whole people owned enterprises.

7. The innate motive of investment inflation is principally to seek self interests. Under the current system, local governments and enterprises principally seek to increase their relative interests in re-distribution by means of investments. These interest motives may be divided into three categories: 1) To increase the benefits which they themselves can dispose of; 2) to speed up the growth rate of the output value and thus to obtain the country's favor; and 3) to use the pretext of investment projects as a measure to seek more funds from the above, in other words, "baiting the hook." Driven by such interest motives, local governments and enterprises first do their utmost to make more investments and best of all to obtain through the supply channels budgetary funds from the state. Next, they invest the funds they have obtained or raised in those projects which can yield more benefits within a short period. These investments are mostly on "short-term/cheap/quick" projects crowded around a few light industry projects the development of which has already reached the saturation point, such as industries producing household electrical appliances, and so forth. From the macroeconomic standpoint, investments of this type have a low efficiency rate and are extremely extravagant. The investors are probably fully aware of this. However, in view of the uncertain prospects in the division of interests between the central government and the localities and the reality of a steady growth in corresponding benefits following investment expansion, the investors are forced to yield to the call of their self interests and invest as quickly and as much as possible. As a result, this has ceaselessly pushed forward the inflation in the gross scale of investments.

8. Imbalance in the investment structure has become the main cause for the investment scale getting out of control. In the past under the traditional system, investment inflation was due to the gross scale being fixed too high from the very beginning. Moreover, too much emphasis was placed then on the development of heavy industry, leading to an irrational structure which was too heavily inclined to heavy industry. In recent years, the local governments, in striving for their own interests, competed with each other in investing in those processing industries which can produce relatively high

returns within a short period. This brought about an imbalance in the structure showing a glut or overproduction in the processing industries but general shortages in the energy, communications, and raw materials trades and industries. This has made it impossible to effectively display the production capacity of the whole society and forced the central government to concentrate its funds on strengthening the "bottle-neck" departments so that they can develop at a faster speed than the local governments can envisage and so that the structure can regain its balance. However, because of this, certain local governments have wholly depended on the central government's investments to reinforce their own "bottle-neck" departments and enabled certain localities, even under the conditions of an imbalanced structure, to continue to invest in departments producing goods in abundant supply. Thus by means of aggravating the state of imbalance in the structure they have influenced the central government to shift its major construction investments to their localities. At the same time, despite the central government having concentrated by far the greater portion of its major investments in such "bottle-neck" areas as the energy and communications departments, the local governments in the processing industries have expanded at an even faster rate, resulting in a fall in the ratio of investments in the "bottle-neck" departments out of the whole society's investments. To relieve the "bottle-neck," the central government was forced to continue to increase its investments and thereby further inflate the already inflated investment scale.

III. Certain Counterpolicies to Control the Current Investment Inflation

9. Based on the investment pattern of divided authority and divided funds, effecting differential control over different investment principal bodies and investment funds. As mentioned above, in regard to investment inflation the promotional force of the current investment mechanism is stronger than its restrictive force. The mechanism itself does not possess the functions of cooling down an overheated investment stature to restore the normal functions of the whole structure. Hence, it is necessary to adopt control measures of a strong administrative character which are over and above the investment mechanism such as mandates to depress the capital construction scale and to control new projects. But it is not advisable to overuse this method of issuing administrative orders under the concentrated authority of the central government. This is because since a change has taken place in the investment mechanism this method of traditional administrative control can only ease the situation for the moment but cannot produce control results nearly as effective as before. Moreover, it may bring about difficulties in advancing the further reform of the investment structure and the reform of the whole economic structure. Administrative compression of the centralized-authority type is most effective when applied to investment activities which are relatively more dependent on administrative measures for support. In such cases, immediate results are seen as soon as the compression is applied. But these investment projects are mainly those within the budget, or within the state plan, or under the system of ownership by the whole people, none of which are the main force of the inflation at present, and hence do not constitute the main objects of the compression. The investment projects which should be subjected to compression are those which are extra-budget,

outside state plans and not under the system of ownership by the whole people. Regarding these projects the central government's administrative compression can hardly yield any results. They are mostly undertaken by the local governments and possess an interest motivation which cannot be suppressed by administrative mandates. Besides, they possess their own expansionist capability without reliance on state appropriations or bank loans. Hence we must look for new measures of compression. In principle, the following may be considered: 1) Effecting differential control between different investment principal bodies. The major point of control should be on the local governments. In view of the special features of the local governments' investment activities possessing a strong autonomous character and there being many makeshift methods available, the central government's compression of the investment projects of the localities should mainly be indirect that is, making the local governments become the principals in compression. Through taking such financial measures as instituting an investment tax and collecting charges for special funds against the investment activities of the localities, the central government can compel the local governments to truly and of their own accord cut down on the local projects. At the same time the central government can issue compression directives in broad outlines to work in unison with the above-mentioned tactics. 2) Establishing and strengthening the restrictive effects on benefits in the investment mechanism. Regarding the localities' self-run and newly established processing industry projects which can yield relatively high benefits within a short period, the central government should retain a certain degree of the regulating and readjusting power in respect of the sharing of the benefits. This injects a dose of uncertainty into the anticipated benefits of the local governments' new investment projects and may thus help to lower the local governments' investment enthusiasm. 3) The state intervening in and raising the cost of fundmerging in the money market, strengthening credit and loan control, and thereby raising the cost of extra-plan and extra-budgetary investment activities, thus keeping the expansion of such investments under control.

10. Clearly and firmly insisting on the direction of the power separation reform. Following the enlargement of the investment power of the localities, the situation of the investment scale getting out of control and of the imbalance of the investment structure has daily worsened. This situation poses a serious challenge to the reform calling for separating the power of making investments. If we adopt the method of strengthening control through the central government withdrawing a portion of the investment power and centralizing more funds, then although it may facilitate the central government's work, it may also aggravate the state of uncertainty in the anticipated benefits of the local governments and enterprises and may thereby more readily lead to the localities fighting to invest first in the "short-term, inexpensive, and fast profit-yielding" projects. In reality, investment inflation in the course of changes in the mechanism is caused to a large degree by the instability in the power and benefit distribution relationship between the central government and the local governments. Both the central government and the local governments feel that in the event of the possible drifting away or changes in the anticipated benefits, the agreement on division of financial benefits between the central government and the local

governments should leave a live gap so that in the event of central finance meeting with difficulties, the method (including methods in disguised forms) of division of financial benefits with the localities may be readjusted, thus resulting in instability in the localities' anticipated benefits and in the localities stepping up their short-term investments. These two adverse results play off each other and cycle unceasingly. In order to make the local governments act of their own accord in the same direction with the central government so that the central government's measures of controlling investments may yield concrete results, first there must be a definite assurance that no change will occur in the fixed pattern of the division of financial benefits between the central government and the local governments. Seen from the existing investment mechanism, the trend of the localities and the enterprises seeking investments from the state or relying on the state for supply of funds has weakened while the competitive concept has been strengthened and a beginning is being made in paying attention to efficiency in investment. The regulating and controlling measures currently adopted by the central government should pay due attention to protecting and fostering the strengthening of the functions of the investment mechanism in this connection. It is true that for the local governments to hold relatively more investment power may breed certain defects such as for example impeding to a certain extent the development of a united market for the commodity economy. According to the basic direction of the reform, the central government's overcentralization of power should be changed into giving the enterprises more autonomous power. Unfortunately, at present the great majority of the enterprises do not possess the quality of autonomously making investments while the external conditions of there being a money market which permits the flexible circulation of funds are still lacking and hence the conditions do not exist for the enterprises to possess more investment power. At the moment local governments have been given relatively larger investment power, as a transitional step in the process of reform of the whole structure. This provides the ground for subsequently giving enterprises larger autonomous power. Therefore, at the least the current basic status of the division of power and division of funds should be stabilized and maintained.

11. In the distribution relations between central finance and local finance, different methods of division are adopted regarding the gains of local enterprises and the gains in the investments of the localities. 1) Division by central finance and local finance of the earnings of existing enterprises in the localities now follows the existing method, is clearly demarcated, and allowed to be stabilized. 2) Regarding the earnings or benefits from the local governments' investments in fixed assets variable and differential methods subject to suitable readjustments are adopted: Benefits from investments in renovating and rebuilding the fixed assets of existing enterprises are subject to the current method in use; regarding the method of division of the benefits from investments in new projects (new enterprises and newly installed production lines) which yield in the short-term (say 1 to 3 years) relatively high earnings, the central government retains a relatively high degree of power of readjustment; regarding the method of division of benefits from investments in new projects earned in the medium term, the central government retains a relatively small degree of the power of

readjustment; the method of division of the benefits from investments in new projects earned on a long-term basis is clearly demarcated and stabilized for a prolonged period. The central government adopts different financial policies toward the development of existing enterprises in the localities and toward investments in the fixed assets of the localities, endeavoring to increase the stable character of the local portion of benefits from among the benefits of the existing enterprises and also to increase the indefinite character of the benefits from investments in medium-term and short-term new projects of the localities. By so doing, on the one hand, the localities' unstable but anticipated benefits from operation and development tend to become stabilized and the local governments are encouraged to adopt measures to strive for increased receipts and excess receipts. On the other hand, the current overly large investments of the local governments take on an element of instability which helps to curb and weaken the tendency of investing in medium-term and short-term new projects and to shift the investments to the existing enterprises' renovation and transformation and long-term projects (for the purposes of restricting the investment funds flowing on too large a scale to non-productive pursuits, corresponding means still have to be formulated). Insofar as the central government is concerned, it can avoid paying a high price for the reform calling for power separation at a time when it adopts financial tactics to control the investment scale and endeavors to ease its financial difficulties and can thus continue to consolidate and develop the fruits of the reform. On the other hand, an economically backed regulating space is provided for the distribution between central finance and local finance thereby stopping up the distribution "live gaps" with their many drawbacks.

12. Paying close attention to the control of extra-budgetary investments. Extra-budgetary funds constitute the main source of funds for the current investment inflation. Hence, extra-budgetary investments should be the focus for control. So that control of the gross volume and reform and invigoration can proceed safely together, it is not advisable to change the current ratio pattern between budgetary funds and extra-budgetary funds. Rather, we should seek improvements in the control intensity and form of control. The following possibilities may be considered: 1) Enforcing a strict financial system to ensure and supervise that the sources of the extra-budgetary funds are proper, generally stabilizing and halting the increase in extra-budgetary funds, and thus keeping the supply valves of extra-budgetary funds under control. 2) Increasing the control intensity over the links whereby extra-budgetary funds are converted into investments. The control departments should tighten up their examination and approval work as well as such other strategic areas like the target amounts and the requirement that the funds must be deposited first before use. 3) Encouraging or actually compelling investment of the extra-budgetary funds in the "bottle-neck" departments. This can be brought about in many ways. Principally the work should be organized by the local governments, such as floating of local debentures, establishing financial structures for specially raising and collecting funds, and so forth. As for the ordinary investment projects financed by self-raised funds, they should be subjected to the payment of the major projects construction fees at a relatively higher rate. All the charges such as discounting fees and so forth

which may ensue should be paid by local finance but the contracting fees which local finance delivers to central finance should be suitably regulated and reduced, say by at least as much as 50 percent.

13. Establishing and training a self-restraining mechanism for the local governments. This is done principally through hardening local budgetary control to form the restraining mechanism. 1) Thoroughly cutting off the umbilical cord of the supply system that still exists between central finance and local finance. 2) Strictly restraining the local governments from raising and collecting funds by administrative means from the enterprises and social organs. In accordance with the concrete conditions of the localities, the central government should fix several or a small number of directions for investments with self-raised funds and encourage or compel the local governments to raise by themselves the funds for construction projects principally those major ones which can benefit their own localities. The local government's rank-and-file extra-budgetary investments should all be in credit form financed by the banks at the market interest rate. 3) The central government should no longer treat local finance according to the principle of egalitarianism and indiscriminate transfer of funds. Regarding the major construction projects which bring benefit to the localities, the central government should, based on the conditions of the projects, delegate to the localities either by means of favorable treatment terms or by force of compulsion. In short, under the present conditions of the difficulty of smoothing out the various economic parameters and of hardening the budgetary control over the enterprises, there are conditions for the adoption of measures to make local finance become independent, to close the extra-budgetary backdoors of the local governments, harden the budgetary control over the local governments and thereby make those local governments which possess the strongest motives for investments to shape up their self-restraining role ahead of the enterprises. This will help in realizing the stable operation of the whole investment system.

14. Augmenting financial control. Compared with several years ago, our country's investment pattern has already undergone a basic change. Extra-plan investments have increased rapidly, occupying by far the largest share in the investments of the whole society. These investments are beyond the control of the budget or of the state plan, making it necessary for the banks to step in and intervene. 1) The general level of interest rates must be raised. At present, interest rates in our country are on the low side, incapable of playing any role in restricting the investment demand. Basically, controlling the gross volume of investments depends on directly controlling the credit and loan volume for investments and controlling the money supply volume. However, control of the gross volume of credits and loans for investments can only regulate the investments within the budget and the portion of extra-plan investments financed by loans. It is still difficult to control the gross volume of investments of society as a whole. Therefore, simultaneously with continuing the control of the gross volume of credits and loans for investments and the volume of money supply, raising the interest rates of loans can play a controlling and regulating role over the gross volume of investments of society as a whole. After interest rates have been raised,

the cost of self-raising funds for investments not financed by bank loans will likewise increase, thus putting this portion of investments under restriction and restraint. It is true that a rise in interest rates will increase the interest outlay on savings and will also heighten the interest rates on other bonds. But under current conditions, the advantages of doing so are more than the disadvantages. Moreover, when and as the conditions turn for the better, we can also lower interest rates. 2) We should continue to support the development of the money market and in developing inter-bank discounting and loaning businesses and the bills discounting business in general, we should suitably promote the enterprization of the banks. By so doing, the banks will not only experience the stimulation of the profit-earning nature of funds but also feel restrained by the knowledge that funds must be kept safe and allowed to circulate, thereby making it possible for the banks to react correctly in times of investment inflation and of their own accord, proceed to compress the scale of granting loans. 3) The banks and financial organs should be encouraged to adopt the credit form in raising funds from society and we should speed up the development of the fund raising businesses of banks and other financial organs so that we can as quickly as possible compress to the smallest degree fund raising by administrative means which is fraught with defects.

15. Controlling the investment scale on the basis of the development trend of investments in projects under construction. Basically speaking, whether an investment scale is appropriate or not depends on whether or not the investment scale and national strength are mutually tolerant. In the actual work of judging whether or not an investment scale is appropriate the main symbol is not only the investment scale in newly started projects of the current year or the investment scale including in it the projects under construction of the current year and preceding years, but is whether or not the development trend of the investment scale of projects under construction is compatible with the supply capacity and development demands of the national economy. Making a judgment based only on the year's investment scale or investment scale on projects under construction and its compatibility with the current year's national strength can hardly yield valid results. The investment scale on projects under construction in a particular year is only a section of the gross volume of inter-related and continuous investments extending through the years and the investment scale of newly-started projects in a year is but a portion of that section. Taking a continuous view, it may be seen that the rise and fall in the movements of the investment scale frequently do not fall in line with the rise or decline of the national strength. If the investment scale of the projects under construction for the current year is found to have surpassed the supply capacity of the national strength of that year but it is also found that the original posture of the investment scale has been on a downward trend, then not only is there no necessity to compress the investments but we may also possibly increase the number of new projects. What are the conditions in our country at present? In 1986 the capital construction investments of units under the system of ownership by the whole people increased by 8 percent over the preceding year and that year the investment scale was basically in harmony with the state of the growth of the national strength. However, the investment scale of

projects under construction was rather large and according to the investment level of the current year the projects already under way will take 4 years for completion. In the whole country there were more than 160,000 projects under construction. The amount of funds needed for the completion of these projects was equivalent to 60 percent of the planned investments under the 7th 5-Year Plan, while in the next 4 years there will be many additional new projects. Thus, the investment scale of the projects under construction has shown a trend of cumulative expansion. This was beyond the capacity of the national strength. Hence, the investment scale of the projects under construction should be reduced and the point of stress in the compression should be to change the posture of its too rapid expansion. Such a compression target could hardly be fulfilled by merely relying on the traditional and administrative type of compression measures. The compression measures taken in 1986 effectively cut down the investment scale of the year but were of no help in slowing down the cumulatively expanding trend built up through the preceding years. At the same time, as for the compression measures of an administrative nature which were principally aimed at the projects themselves, the localities and the enterprises could resort to various means to cover up the compressed projects or present them again after changing their names. Simply requiring the projects to go through the process of examination and approval cannot stop the oncoming current of expansion. Once a project finds its way into the state plan, then "the force of development cannot be checked," and such "fishing-like" acts as exceeding the standard, exceeding the estimate and exceeding the construction period will spread day by day. Under the condition of the weakening effect of the traditional administrative measures, aside from continuing the strict enforcement of the system of checking the projects first before approval, we may consider the method of levying taxes on cases of exceeding the standard, or the estimate, or the construction period. As for the financial and currency regulating and controlling tactics employed against extra-plan and extra-budgetary projects, they should take the control of original posture of the scale of projects under construction as the basic parameter for planning and regulation. At the same time, we must realize that the large number of short-term projects in the extra-plan and extra-budgetary investments do not constitute the main forces causing the expanding posture. Simultaneously with enticing these investment principal bodies to go into long-term investments, we should adopt regulatory measures on their short-term investment projects which are different from those on the long-term projects and are more flexible. And when forcefully changing the oncoming expanding posture caused by certain long-term investment projects, we should avoid the error of over compressing the short-term investments.

16. Actively developing an investment form of the market competitive pattern.

1) Developing enterprise-like investment companies. Their sources of funds may be from special funds or from raising of funds on credit; they may autonomously select the investment projects directionally or non-directionally based on the principle of obtaining the optimum investment profits but must bear the investment risks. We may systematically promote the experiences of the Hua Neng company. We may actively encourage the organization of investment companies within the restricted limits of departments, industries and trade, enterprise groups and localities. We

should allow the formation of investment companies of a civilian nature whose sources of funds come wholly from the self-owned funds of enterprises and individuals. 2) Developing the share and stock investment form. In addition to the investments with funds from share subscriptions by the localities and enterprises now being tried out, we may establish, on a trial basis, share and stock investment companies. Simultaneously, we should pay attention to the formation of the relevant regulations and systems. Investment principle bodies carrying out this form of investment are subjected to the pressures of both the investment returns and the risks connected therewith but this will greatly improve the investment efficiency. More importantly, possessing enterprise-like investment operational activities, these investment principals are liberated from the dependence on the supply system of state funds and will progress in the direction of independently bearing the investment risks. In the bodies of these investors, the "hunger and thirst disease for investment" will be healed without treatment. The direction manifested by these investment forms is where the hopes for the success of the reform of our country's investment structure will lie.

March 1987

(Participants in the research work on this special article: Tian Jianghai (3944 3068 3189), Li Xuezheng (2621 1331 2582), Yuan Gangming (5913 6921 2494), and Li Shuzhi (2621 2885 1807); article was written by Yuan Gangming (5913 6921 2494).)

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CSO: 4006/848

COUNTRY'S FINANCIAL TREND TERMED GOOD

Shanghai SHIJIE JINGJI DAobao in Chinese 13 Apr 87 p 4

[Article by Zhang Xuejun [1728 1331 6511], He Jiacheng [0149 1367 2052], Bian Yongzhuang [6708 0516 1104], and Zhang Ronggang [1728 2837 0474] of the Economics Institute of the Chinese Academy of Social Sciences: "The Main Current of China's Economic Situation Is Good"; first paragraph of text is source-supplied introduction]

[Text] Bank loans and the money supply are two important currency indicators which show that China's material economy, after shifting steadily onto the commodity track, is now continuing to develop healthily toward greater use of credit. Intensified credit relationships provide a general backdrop to the current economic situation; the expansion of credit this has brought about is certainly not equivalent to an expansion of total demand. Some comrades are confused by this and reach the conclusion that the economic situation is grim and calls for major surgery. This does not accord with the facts.

The main current of China's present economic situation is good. In terms of such material indicators as investment, consumption, production and stocks, the economy is now steadily cooling down, and total demand is now beginning to be less than total supply. At the same time, the two important currency indicators of bank loans and money supply also show that, after shifting steadily onto the commodity track, China's material economy is now continuing to develop healthily toward greater use of credit. Some comrades are confused by this, and sometimes even reach the unrealistic conclusion that the economic situation is grim and calls for major surgery.

We believe that an analysis of the currency phenomenon as it stands during a transition in the nature of the economy is incapable of reaching a critical conclusion, inasmuch as an extremely important, and to date not yet universally recognized, phenomenon has occurred during this period, and that is the intensification of credit relationships.

1. The Reason That Not All the "Excess" Currency Now in Circulation Can Be Converted to Effective Total Demand Is That a New Trend Toward Greater Use of Credit Has Developed

Several years ago, in dealing with the abnormal growth in the money supply that had already appeared at the time, several comrades correctly pointed out that this was the necessary outcome of the process of commercialization of the economy started by rural economic reform. Under this premise, not all the "excess" currency in circulation can be converted to effective total demand; it can only lower the overall rate of currency circulation.

However, talking about commercialization only deals with one aspect of the issue; another aspect of the process of developing a commodity economy, and perhaps a more important one, is the "creditization" of the economy. Like the development of commercialization, which was manifested as a decline in the proportion of self-sufficient products and an increase in the proportion of imported products with commodity exchange relationships and which led to a new demand for currency, the development of creditization is manifested as a decline in the proportion of self-owned capital and an increase in the proportion of credit funds borrowed from outside, which necessarily leads to a new demand for loans and currency. In other words, the growth of creditization only changed the circuit of social funds, which at the same time implies an opportunity for the creation of new intakes of loans and currency, thereby necessarily lowering the rate of turnover (or circulation) of both; hence there is no commonality here with an expansion of credit or an expansion of total demand.

Urban economic reform, particularly since 1986 and implementation of the policy of "allocation, reform, loans" for circulating-fund credits and fixed-asset investments, has directly accelerated the process of creditization of the Chinese economy. From 1983 to 1986, the total bank debt of industrial and commercial enterprises increased by an average of 23.1 percent annually, greatly exceeding the average for the previous several years and the historical average. This in part indirectly explains the accelerated creditization. Generally speaking, after the 1979 reforms, there was a sustained decline in the rate of currency circulation in China; in the first few years, this mainly caused an increase in the degree of commercialization of the economy, while in the last few years it mainly caused intensified credit relationships. In terms of long-term trends, intensified credit relationships represent an even higher stage of development of the commodity economy, and even some developed countries have not yet fully reached this stage. It can be anticipated that further increasing the degree of creditization of China's economy will be a long historical process, during which excessively rapid growth in currency and a further decline in its rate of circulation are unavoidable. But this is a normal phenomenon and need not cause excessive concern.

2. Expansion of Bank Credit Is an Important Aspect of Intensified Creditization in China as well as a Major Cause of the Rapid Decline in the Rate of Circulation

Even though intensified credit relationships are a universal phenomenon in the growth of a commodity economy, whether it can cause a simultaneous decline in the rate of currency circulation is manifested differently in different countries. For example, in the 1950's Japan's circulation rate continued to decline, dropping an average of 9.1 percent annually; but in the United States

the rate of currency circulation rose, averaging 2.8 percent annually. The reason for this disparity is that the two countries have different financial systems.

Theoretically, credit relationships influence two aspects of the rate of currency circulation: 1) total credit (or total social debt); 2) credit structure (or debt structure). Intensified credit relationships are primarily manifested through an expansion of total credit, while the proportion of bank credit in total social credit is the basic feature of the credit structure. In modern society, banks are the only institutions that produce currency, so that when intensified credit relationships are achieved not through an expansion of bank credit but of nonbank credit (i.e., financial markets), this situation can only lead to accelerated borrowing or expenditure of already issued currency among nonfinancial economic units, and not to the issue of additional currency, thereby lowering the overall rate of currency circulation. The disparity in changes in circulation rates between Japan and the United States is thus explained by Japan's using an expansion of bank credit to achieve intensified credit relationships, whereas just the opposite is the case in the United States.

China is a developing country, and in terms of the evolution of financial markets there is a significant gap between it and Japan as well. Therefore, virtually all the intensified credit relationships that arose after reform were achieved through an expansion of bank credit. This is one of the salient features of the process of intensifying credit relationships in China and an important reason for the excessively rapid decline in the rate of currency circulation in the last few years. We estimate that from 1980 to 1986 the rate of circulation of China's money supply dropped by 9 to 10 percentage points annually.

3. That Financial Departments and Enterprises Have Allowed Citizens To "Keep More Profits" Has Pushed the Growth of Credit Relationships, but This Carries With It Some Irrational Elements

Development of a commodity economy provides a general backdrop for increasing the use of credit. However, in terms of China's circumstances over the last few years, it has been the financial departments and enterprises allowing citizens to "keep more of their profits" that has directly promoted this increase.

Since reform, the state has on several occasions significantly raised the prices of agricultural and sideline products and the wages of urban staff and workers; at the same time, spurred on by their "thirst for income," enterprises have to the best of their ability utilized their profits after taxes to issue bonuses and welfare payments to their staff and workers, and this has led directly to a major increase in people's incomes, which in turn led people to save more (cash on hand and bank deposits). At the same time, the financial departments and enterprises letting people "keep more profits" resulted in a severe shortage of funds of their own, so that they were forced to seek bank loans by various means. Thus, in addition to the traditional channel of funds being turned over to the state and allocated downward by the financial departments, the social movement of funds developed a new channel,

whose share is increasing steadily, consisting of deposits to and loans from banks.

Solely in terms of this process of changing over, either by externalizing internal funds or by creditizing self-owned funds, the situation described above is certainly the basic form of intensified credit relationships, and it is not basically different from the situation in other countries. However, in terms of the basic lever giving rise to this process, i.e., the financial departments and enterprises allowing people to "keep more profits," and especially enterprises lavishly issuing bonuses, there are certainly some irrational elements contained in this. This is another outstanding characteristic of China's intensified credit relationships and another important reason for the decline in the rate of currency circulation in recent years. In addition, against this special macroeconomic backdrop, it may also give rise to various phenomena of distortion or irrationality. This was the case in 1986: with demand being curtailed and the rate of industrial production dropping sharply (from 18 percent the year before down to 9.2 percent), and with a corresponding reduction in profits realized by enterprises, total staff and worker wages sustained a rate of growth roughly the same as during the period of expansion (over 20 percent). This took a huge bite out of financial income and enterprise profits, reaching an extreme point through people being allowed to "keep more profits" and the consequent intensification of credit relationships. Therefore, even though total demand had by then been bought under overall, effective control, bank credit continued to expand (strictly speaking, this is a sort of "false expansion"), to the point that a whole series of misunderstandings and confusion were created in people's concepts and analyses of the economic situation.

According to the preceding analysis, we believe that intensified credit relationships serve as a general backdrop for the present economic situation, and the expansion of credit created by this is not the same as an expansion of overall demand; however, since this process itself embodies the irrationality of microeconomic behavior, it should not be treated lightly. In addition, the way to understand this problem is to accelerate the pace of reform of the enterprise system, creating a new microeconomic base, rather than to urge "major macroeconomic surgery" as do those comrades who erroneously view this as an "expansion of total demand."

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CSO: 4006/616

CITIC'S SUCCESSES REPORTED

Shanghai SHIJIE JINGJI DAobao in Chinese 20 Apr 87 p 4

[Article by Mou Jun [3664 6511]: "China International Trust and Investment Corporation Has Outstanding Success; Complete Group System Being Formed"; first paragraph of text is source-supplied introduction]

[Text] Returning from a long trip, Rong Yiren [2837 3015 0088] states that as of the end of 1986 the China International Trust and Investment Corp had attracted \$1.2 billion in direct investment from abroad. Following the principle of integrating production and enterprise and linking operations with supply and marketing, it is integrating production, technology, and supply. This involves acting within state plans as well as making up for any shortcomings of those plans outside them.

Since its creation in October 1979, CITIC, with registered capital of 1.2 billion yuan, has had outstanding success and attracted worldwide attention. On the afternoon of 14 April, CITIC Chairman Rong Yiren, just returned from a long trip abroad, met with Chinese and foreign reporters in the bright and clean fourth-floor hall of the International Building in Beijing.

This widely known professional first presented CITIC's achievements over the last 7 years:

--As of the end of 1986, it had created 54 Sino-foreign joint and contractual joint ventures and took in \$1.2 billion in direct foreign investment and 1.16 billion yuan in corporate investment, of which \$250 million was foreign investment raised by the enterprises themselves. Among the larger projects are the Tianjin Otis Elevator Co, the Guangzhou Biaozi Automotive Corp, etc.

--It developed lateral economic associations within China. With funds raised by CITIC, technology and equipment were imported and joint or contractual joint ventures were organized with Chinese firms. As of the end of 1986, there were 123 such enterprises. The companies have taken on a total investment of \$1.48 billion, including \$170 million in foreign capital raised by the companies themselves.

--It has made positive use of international financial assistance. From 1982 through January 1987, it made eight bond issues in Japan, Hong Kong, and West

Germany for a total of \$720 million; it made large commercial loans by the "changeover" method. In 1986, CITIC also purchased 95 percent of the shares in the Jiahua Bank of Hong Kong.

--Using leasing and consignments, it imported technology and equipment to push the technological upgrading of older enterprises and improve Chinese technology levels. CITIC participated in the investment in, and acts as manager of, two specialized companies which, from 1981 through 1986, leased a total of approximately \$1 billion in technology and equipment.

--It has raised funds in the international financial market and invested in foreign resource development projects in order to achieve long-term, stable, and preferential supplies of materials that China has long been short of. Since 1984, it has invested in lumber, electrolytic aluminum, and paper pulp projects in the United States, Australia, and Canada. In addition, it participated in the investment in and financing of the second Hong Kong undersea tunnel and also purchased 12.5 percent of the shares in Cathay Pacific Airways.

--It raised funds for the construction of a dozen hotels, office buildings for foreign businessmen, and apartment houses in Beijing and elsewhere around the country, using the general contract approach.

--In October 1981, it established the China International Economic Consultants Corp [CIECC]; in 1985 it established the CITIC Attorneys' Office to provide economic and legal consulting services to foreign clients. In recent years it has accepted more than 200 consulting projects from Chinese and foreign clients. CIECC has been formally accepted as a consulting firm by the World Bank and the UN Development Program.

Reporters asked what the difference is between CITIC and groups of enterprises in capitalist countries. Chairman Rong replied that CITIC is still a socialist enterprise under the system of public ownership. Based on the principle of integrating production and enterprise and linking operations with supply and marketing, it integrates production, technology, and supply and marketing; this involves acting within state plans, and also making up any of the plans' shortcomings outside them. This is a new experiment for CITIC in a society with a commodity economy.

Asked how CITIC would control the scale of investment in response to the climate of cutbacks called for by the central government, Rong replied that the cutbacks urged by the central government refer to investments in capital construction projects of excessively large scale; CITIC's investment nature is not at all the same as this.

He revealed that the scale of CITIC's investments is not restricted by any government agency.

Rong Yiren emphasized that CITIC has now virtually reached its full scale, forming a fairly complete group system. Earning a profit is the means; the goal is to develop production capacity and improve economic benefits in order to gradually raise living standards.

When this reporter asked him about his monthly salary, he replied openly: "I'm not sure about it myself; perhaps around 500 yuan. Right now I'm mainly living on what I accumulated in the past."

Someone interjected, "So you're not one of the 10,000-yuan households?" He laughed heartily but did not answer.

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CSO: 4006/616

CITIC NORTH AMERICAN INVESTMENTS PROSPER

HK270820 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 27 Jul 87
p 1

[Article by correspondent Rosie Wu]

[Text] New York--Investments in North America by the China International Trust and Investment Corp. (Citic) are producing great economic benefits for China, according to a senior executive.

Min Yu, vice-president in charge of the corporation's overseas investment, said the Celgar Power Co., a 50-50 joint venture with Power Corp. of Canada, has been a great success. The \$90 million venture started operation last September in Montreal, with a capacity to produce 180,000 tons of high-quality paper pulp a year.

It made large profits in the first half of this year, and both sides are largely satisfied with its operations. Half of the products are being shipped to China, with the rest marketed in the United States and some Asian countries.

Min said that Citifor [expansion unknown], Citic's wholly owned subsidiary established in Seattle, Washington, 3 years ago, generates a revenue of \$30 million a year from sales of lumber. Since 1985 the venture has been supplying lumber to markets in the United States, China, Japan, and other Asian countries. It sent back 20 million board feet of lumber to China in the first 6 months of 1987.

Citic now has 18 wholly owned subsidiaries and joint ventures across the world, with a total investment of over \$500 million. The investments have been made mainly in the areas of natural resources development, manufacturing, transport, and financial operations. Nine projects are operating in Hong Kong and Macao, with a total value of \$300 million. The rest are spread over the United States, Canada, and Australia.

In North America, besides Citifor and the Celgar Power Co., Citic has a subsidiary, Citic Canada, in Vancouver and a representative office in New York. A Citic USA company may be established in the near future, depending on opportunities, Min said.

The corporation's vice-president is now on a 3-week tour, meeting with American entrepreneurs for business negotiations.

Since it started making investments overseas 3 years ago, one important thing Citic has learned is that they can be financed by foreign loans to be paid off with profits gained from operations. Citic's joint ventures in Canada and Australia were both financed this way, and Citic prefers to take 5-to-10-year loans.

Citic will continue to look for investment on the Pacific rim and its projects in the United States, Min said, will start on the West Coast and gradually spread east.

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CSO: 4020/248

MAINLAND BANK IN HONG KONG INVESTS IN ZHUHAI PROJECTS

HK220929 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0535 GMT 17 Jul 87

[Report by Sheng Meilan (4144 5019 5695)]

[Text] Hong Kong, 17 Jul (ZHONGGUO XINWEN SHE)--The Bank of China Group in Hong Kong is using the capital from the Hong Kong-Macao markets to provide foreign exchange loans in various forms to support Zhuhai in carrying out projects of a productive nature and foreign exchange-earning projects and to introduce advanced technology and technology-intensive projects. The group has attained marked achievements.

The spokesman for the Hong Kong-Macao office of the Bank of China Group said that China is eager for capital. Focusing on actual needs, the Bank of China Group provides different kinds of loans. From June 1985 to May this year, one of the loans provided by the Bank of China Group to relevant Zhuhai enterprises was \$89.78 million, of which over \$84 million has been used and over \$10 million has been paid back. Economic results are being gradually generated from these loans.

The spokesman said that the major portion of loans to the enterprises in Zhuhai from the Bank of China Group is for projects of a productive and export nature, for instance, of the 29 projects covered by the package loan totaling \$50 million, 27 of them are for industry, agriculture, animal husbandry, and fishery, accounting for 89 percent of the total amount. Industrial and agricultural output value is expected to increase by over 540 million yuan after all these projects are put into production.

Furthermore, the \$20 million construction loan for Zhuhai is mainly for introducing long-distance telephone facilities and electricity generating equipment, and 20,000 long distance telephones are expected to be operational this August. The loan is being used to import four generators from the FRG with an installed capacity of [number indistinct] kilowatts. They will be operational this September. By then electricity supply will be double that at present. The investment environment in Zhuhai Special Economic Zone continues to improve.

The spokesman also said that the original foundation of industry in Zhuhai area was fragile and there was a shortage of technical personnel. The Bank of China Group also supports the enhancement of technology and introduction of talent. For example, the two Sino-foreign joint ventures, the Zhuhai air-compressor factory and the Zhongxing magnetic tape factory, have both introduced foreign facilities and software technology. The Chinese are sending technicians to participate in the management. When the compressor factory goes into production, the need to import compressor factories in China will change. The Bank of China Group has also fostered a group of small and medium sized enterprises to develop as export-oriented enterprises. These enterprises adopted the method of joint-venture and cooperation to import machinery and equipment and make use of foreign firms' existing sales channels abroad to earn foreign exchange through export.

The spokesman revealed that the successes in Zhuhai have prompted the Bank of China Group to further explore methods which are suitable for economic development in China and to continue to utilize the capital from Hong Kong and Macao to support construction in China.

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CSO: 4006/844

INCREASED EXPORTS TO HONG KONG, JAPAN, OTHERS

HK271533 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1436 GMT 21 Jul 87

[Text] Beijing, 21 Jul (ZHONGGUO XINWEN SHE)--As there were technical mistakes in the statistics on China's foreign trade provided by the department concerned on 17 July, ZHONGGUO XINWEN SHE has been mandated the Statistical Bureau to republish the relevant figures as follows:

China's trade with Hong Kong and Macao in the first quarter of this year increased by a large margin, with a total import and export volume of \$9.48 billion, an increase of 44.8 percent over the same period of last year. Of the total, the export volume was \$5.86 billion, an increase of 40.9 percent; and the import volume was \$3.52 billion, an increase of 51.7 percent.

China's trade with the six ASEAN nations in the first half of this year totaled \$1.52 billion, a drop of 1.9 percent as compared to the same period of last year. Of the total, the export volume rose to \$910 million and the import volume dropped to \$610 million.

Sino-Japanese trade in the first half of this year amounted to \$7.24 billion, an increase of 13.3 percent over the same period of last year. Of the total, the export volume was \$2.73 billion, an increase of 15.7 percent; and the import volume was \$4.51 billion, a drop of 22.8 percent as compared to the same period of last year.

As revealed by the material announced by the Stats Statistical Bureau, China's foreign trade increased by a large margin in the first half of this year, amounting to \$16.6 billion, an increase of 2.43 percent over the same period of last year. Its imports amounted to \$18.6 billion, a drop of 6.2 percent as compared to the same period of last year. The adverse balance of foreign trade dropped from \$6.4 billion in the same period of last year to \$2 billion. Deducting what was introduced from abroad without the use of foreign exchange, such as running joint ventures, processing materials provided, carrying out compensatory trade, and providing free economic aid, the adverse balance of trade was actually a little over \$100 million.

Foreign exchange through nontrade contacts continued to keep a favorable balance. By 20 June, income from nontrade contacts outstripped expenditure by \$1.67 billion.

China's volume of trade with the United States, the Soviet Union, and the EEC in the first half of this year dropped as compared to the same period of last year. Its trade with the United States dropped by 10.2 percent. Sino-U.S. trade volume was registered at \$3.26 billion, of which the import volume was \$1.82 billion, with an adverse balance of \$380 million.

The EEC's trade with China amounted to \$5.11 billion, ranking third among China's trade partners. Of the total, the FRG's trade with China amounted to \$1.99 billion. Italy's \$850 million, France's \$670 million, and Britain's \$590 million.

Sino-Soviet trade in the first half of this year totaled \$980 million, the favorable balance being \$20 million.

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CSO: 4006/844

TIBET OFFERS PREFERENTIAL TERMS FOR FOREIGNERS

HK271056 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 27 Jul 87
p 2

["Special Report on Tibet" by Da Chansong: "Region to Attract Funds from Abroad"]

[Text] Tibet has made a fresh start recently in attracting foreign funds to expand economic development on the roof of the world.

In order to create a better investment climate, the Tibetan government has offered preferential treatment to foreign investors. This includes granting more decisionmaking power to foreign-funded enterprises than state-owned enterprises in terms of employment, finances, fixed assets, production, supply, and sales.

There is a 1-year tax exemption for those who find it difficult to pay taxes in the early stages of an enterprise. Import duties are waived for all imported equipment, spare parts, and components, as well as for raw materials brought in to produce export products.

The interest rate for RMB loans is lower than in other regions of the country, and the interest rate for foreign currency loans is lower than that on the international market. The Bank of China Lhasa branch is able to arrange guarantees and testimonials for foreign investors.

Now, more and more foreign businessmen are coming to assess opportunities for joint ventures. Apart from the Holiday Inn Lhasa Hotel, the only joint venture here so far, Tibet also set up in June last year a tourist company in Hong Kong and a Tibet hotel in Chengdu with Hong Kong partners, scheduled to open this October.

"Meanwhile, we are actively seeking various kinds of foreign aid to quicken our economic development," said Mao Rubai, vice chairman of the People's Government of Tibet Autonomous Region.

The United Nations Children's Fund has provided \$2.2 million of free aid for seven projects covering maternal and child hygiene, immunisations, and job training.

Some international banking organizations and research institutes have also given aid which includes \$100,000 from an American research institute to help set up a Qomolangma natural [as published] protection park.

During his recent visit to Tibet, former American President Jimmy Carter offered to provide \$50,000 a year to Tibet University to have two Tibetan students study in an American University and Cambridge University in Britain. Visiting West German Prime Minister Helmut Kohl also promised to provide technology and equipment to set up wool processing and leather factories in Tibet.

An increasing number of entrepreneurs and companies from Hong Kong and Macao and from France, Britain, Switzerland, Japan, and the United States have shown interest in setting up businesses in the region, Mao said.

Projects now under negotiation are mostly production and tourism-oriented. They include a motor repair centre using technology and equipment from the Isuzu Motor Co. and a project to open a deep geothermal well near Lhasa by an American scientist who was formerly Carter's technology advisor. Italy has been a long-time partner in developing Tibet's geothermal energy.

"We also paid much attention to training advanced management and middle-level personnel," he said. Two technicians have recently been sent to study geothermal resources in Iceland.

As Tibet has been, gradually opening its door, it has enjoyed increased trade in the past 2 years. Last year, trade volume reached 110 million yuan, earning more than \$5.3 million, double the 1985 figure and the best figure ever.

"We foresee more progress this year," he said. "So far, \$10 of contracts have been signed, which are expected to earn about \$7 million."

Border trade with Nepal is Tibet's chief foreign trade. Barter trade between residents within 30 kilometres of the border is very active in the southern part of Tibet. Some products are exported via inland provinces and cities.

Traditional export products include sheep wool, cow hides, and medicinal herbs. At the same time, the Tibetan government is trying to develop traditional handicrafts for export such as Tibetan rugs. It also hopes to increase mining of minerals such as chromium to eliminate the need to import large quantities each year.

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CSO: 4020/248

MINISTRY ANNOUNCES FOREIGN INVESTMENTS DROP

HK250930 Beijing CHINA DAILY in English 25 Jul 87 p 1

[Article by staff reporters Zhu Ling and Wang Fu]

[Text] Direct foreign investment in China has dropped but a record number of Sino-foreign joint ventures have been finalized in the first half of this year, the Ministry of Foreign Economic Relations and Trade announced yesterday.

Between January and June, the contract value for direct foreign investment in China was \$1.088 billion, down from \$1.42 billion in the same period last year, the ministry said.

Of the total direct foreign investment this year, the utilized amount reached \$728 million, compared with \$692 million in the corresponding period last year.

Wang Yongjun, deputy director of the ministry's Foreign Investment Department, said the drop in direct foreign investment was mainly because the construction of hotels and restaurants in big cities was reaching saturation point, and China has been giving priority to production-oriented projects involving technology transfers.

Zhou Keren, the ministry spokesman, said 461 Sino-foreign equity joint ventures have been set up during the first half of this year. This is an increase of 157 over the number for the same period last year.

China also approved the establishment of 264 Sino-foreign contractual joint ventures and 13 wholly foreign-owned enterprises.

Zhou said: "Most of the joint ventures were production-oriented and the ventures in the fields of ordinary technology and service trades decreased."

So far, China has approved the establishment of 8,516 foreign-invested enterprises with contracts worth \$17.176 billion, excluding the total of \$2.86 billion invested by foreign companies in offshore oil exploration.

Zhou said that China had entered into a steady growing stage in the use of direct foreign investment in the country.

He said that the country's environment for foreign investment had witnessed improvement in three aspects: perfection of economic laws and regulations, establishment of competent departments responsible for foreign investment, and the rationalization of foreign investment structure.

He said: "With the founding of the Foreign Investment Working Group of the State Council last year, local governments followed suit to build up the co-ordination for foreign-funded enterprises."

In the first half of this year, China borrowed \$2.217 billion from other government and foreign financial organizations and the utilized amount of the loan reached \$2 billion.

The spokesman also reported that the scale of contracting engineering projects and labour service co-operation overseas kept growing.

He said that the value of contracts for Chinese to work abroad rose by 3.78 percent to reach \$710 million in the first half of this year.

The Chinese companies had completed projects worth \$480 million, an increase of 15 percent over the same period last year.

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CSO: 4020/248

OFFICIAL REVEALS MORE FOREIGN CAPITAL USED

OW240700 Beijing XINHUA in English 0650 GMT 24 Jul 87

[Text] Beijing, 24 Jul (XINHUA)--More than 3 billion U.S. dollars in foreign capital has been raised by China either through loan agreements or direct foreign investment in the country in the first half of this year, a Chinese official said here today.

China borrowed 2,217 million U.S. dollars from other governments and foreign financial institutions between January and June this year according to signed agreements, and 2,018 million U.S. dollars has already been put to use, said Zhou Keren, spokesman for the Chinese Ministry of Foreign Economic Relations and Trade.

The contract value of direct foreign investment was 1,088 million U.S. dollars, of which 728 million U.S. dollars has been spent in the first half of this year, Zhou said at a press conference here this morning.

He said that in the first half of this year, China approved the establishment of 461 Sino-foreign joint ventures, 264 Sino-foreign cooperation enterprises and 13 wholly foreign-owned enterprises. The number of joint ventures increased by 157 over the same period last year.

Most of the joint ventures, he said, were production oriented. The number of technologically advanced and export-oriented concerns increased sharply. Ventures in the fields of ordinary technology and service trades decreased, Zhou Keren said.

He said most foreign investment came from Hong Kong, the United States, Japan, Singapore, and other countries and regions.

To date, China has approved the establishment of 8,516 foreign investment enterprises with the contracts worth 17,176 million U.S. dollars, not including 2,860 million U.S. dollars invested by foreign concerns in offshore oil undertakings.

According to a set of regulations encouraging foreign investment, promulgated by the State Council last October, 718 foreign investment concerns have

enjoyed preferential terms because they are export-oriented or advanced-technology enterprises by the end of last month.

The spokesman said China was steadily absorbing foreign investment and the economic laws and regulations concerning foreign economic activities have been improved, and so has the investment climate in the country.

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CSO: 4020/248

MOFERT ANNOUNCES INCREASE IN FOREIGN CAPITAL

OW270747 Beijing XINHUA in English 0639 GMT 27 Jul 87

[Text] Beijing (CEI)--Four hundred sixty-one Chinese foreign equity joint ventures, 264 contractual joint ventures, and 13 sole foreign ownership enterprises were approved in the first half of this year, according to preliminary statistics of the Ministry of Foreign Economic Relations and Trade (MOFERT).

This was an increase of 34.7 percent over the same period last year, said Zhou Keren, spokesman of MOFERT. This brought the total number of joint ventures up to 8,516.

He said the paid-in foreign investment in the first half was 728 million U.S. dollars--36 million U.S. dollars more--but the contract value of direct investment dropped from 1,428 million U.S. dollars to 1,088 million U.S. dollars.

Of the signed projects, Hong Kong accounts for 611, Japan, 39, and the United States, 34.

Up to now, the contract value of approved foreign-funded firms is more than 17.1 billion U.S. dollars, excluding the contract value of 2.86 billion U.S. dollars foreign investment for offshore oil cooperative development.

By the end of June this year, there were altogether 513 export-oriented enterprises and 205 advanced-technology enterprises confirmed and certified, under the regulations of the State Council for the Encouragement of Foreign Investment in China.

These enterprises are scattered in 21 provinces, autonomous regions and municipalities but most are located in Guangdong Province (including the special economic zones), totalling 236 in number and accounting for 33.6 percent--followed by Jiangsu Province with 80, Shanghai, 69, and Fujian Province, 56. The confirmed export-oriented and advanced-technology enterprises have already started enjoying preferential treatment according to the relative regulations of the state.

From January this year, the economic laws and regulations concerning foreign investment have been undergoing improvement. Among the foreign-funded projects approved, the number of service projects or non-production projects has shrunk, while production projects have increased.

FOREIGN RESERVES STABILIZE IN FIRST HALF YEAR

OW220627 Beijing XINHUA in English 0549 GMT 22 Jul 87

[Text] Beijing (CEI)--China's foreign reserves stopped falling and began to increase in the first half of this year. By the middle of June, China's foreign exchange reserves had reached 3.3 billion U.S. dollars.

In the first half of this year China's banks and credit cooperatives have been doing well loaning and taking in deposits. Withdrawals were normal, deposits increased and the amount of loans was about the same as in the same period last year.

The amount of recovered currency was 8.3 billion yuan, 1.6 billion yuan less than in the same period of last year. Commodity and non-commodity currency withdrawn both increased, while consumption spending rose.

All kinds of deposits in banks and credit cooperatives increased by 71.7 billion yuan, 52 percent more than in the same period last year. Savings deposits in cities and towns increased by 44.1 billion yuan, 13.6 billion more than in 1986. Enterprise deposits increased by 8.9 billion yuan, 500 million yuan more than that in 1986.

By the end of June, industrial and commercial banks' outstanding deposits of all kinds came to 26.2 billion yuan more than at beginning of this year. Of this amount, deposits in cities and towns increased by 19.8 billion yuan. The total of all kinds of loans increased by 7 billion yuan.

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CSO: 4020/248

HEBEI HOLDS MEETING ON USING FOREIGN CAPITAL

SK230700 Shijiazhuang HEBEI RIBAO in Chinese 10 Jul 87 p 1

[Text] "Further emancipating our minds, realistically strengthening leadership, actively developing export-oriented and technically advanced foreign-funded enterprises that can earn foreign exchange, and rapidly improving our province's backward situation in using foreign capital" are the demands set forth by the leading comrades of the provincial party committee and government at the provincial meeting on the utilization of foreign capital which concluded on 8 July.

Since the policy on opening to the outside world was implemented, our province has scored certain achievements in the utilization of foreign capital. We have completed 142 province-approved foreign-funded projects of which some are getting ready for business. The contracts involved a total of \$141.77 million. As of the end of last May, foreign traders had actually invested \$44.8 million. In addition, the contracts of 18 state projects in our province, including the Shangan Power Plant, the Beijing-Qinhuangdao electrified double-tracking railway, and the second-phase Qinhuangdao coal wharf project, involved \$1,099,250,000. By the end of 1986, the actual foreign funds absorbed reached \$588.26 million. Our province has also achieved progress in the utilization of loans from foreign governments. Being a coastal port city, Qinhuangdao has also made a good beginning in carrying out foreign-funded projects and building the economic and technological development zone. Its environment for investment has improved remarkably. However, our province's work of utilizing foreign funds still lags far behind some advanced provinces and cities. The main manifestations are that our province's scope of utilizing foreign funds is too small, its development in this field is uneven, and its understanding of the importance of utilizing foreign funds is inadequate.

Vice Governor Ye Liansong pointed out that further expanding the work of opening the province to the outside world, exerting efforts to improve and strengthen the work of utilizing foreign funds, and striving to absorb more foreign capital to serve Hebei Province's economic development are the pressing tasks facing our province's economic front. We should fully understand the strategic significance of utilizing foreign capital in the four modernization drive, enhance our awareness of utilizing foreign funds, create a good investment environment for absorbing foreign funds, strengthen leadership over planning,

management, and the orientation of utilizing foreign funds in investment, promote the way of combining foreign trade with the increased production of enterprises and the introduction of new technology, grasp the building of contingents and the training of competent personnel, strive to run the foreign funded enterprises well and display their exemplary role, implement the leadership responsibility system, clearly divide the work, and improve the relations of various departments.

During the meeting, Xing Chongzhi, secretary of the provincial party committee, gave a speech. He said: The fundamental way to push forward the province's foreign funds utilization work is to further emancipate the thinking of cadres at all levels, break with the closed state of economy, and speed up the training of cadres and personnel. It is necessary to practice in the course of training and to train in the course of practice, strive to cultivate a competent cadre rank that are good at utilizing foreign funds and running enterprises as soon as possible, and make them stimulate other enterprises in an effort to promote the province's economic development.

The meeting also presented certificates to five foreign-funded export enterprises, including the Baoding Zhongda Knitwear Company Ltd, the Baoding Baoshi Chinese Medicinal Herbs Company Ltd, the Qinhuangdao Qinfu Knitwear Company Ltd, the Handan Hebei International Leather Goods Company Ltd, and the Qinhuangdao Qinhe Plastic Glasses Industrial Company Ltd, and three advanced technological enterprises, including the Qinhuangdao Huayanbandi Tube Manufacturing Company Ltd, the Shijiazhuang Huashi Machinery Company Ltd, and the extrusion press plant under the Bohai Aluminum Industrial Company Ltd.

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CSO: 4006/844

RENMIN RIBAO DISCUSSES FOREIGN TRADE THEORIES

HK231031 Beijing RENMIN RIBAO in Chinese 13 Jul 87 p 5

[Article by Yao Zengyin (1202 2582 5593): "Probing Several Theoretical Questions Concerning China's Foreign Trade"]

[Text] Question: Some economists hold that taking the principle of "each supplying the needs of the other side and making up the other's deficiency from one's own surplus" as the theoretical basis for the development of foreign trade of the socialist countries does not suit China's situation of opening up to the outside world and the demand of taking an active part in the international division of work and forcefully developing foreign trade. What is your opinion about this?

Answer: To this question, we cannot just give a simple answer as yes or no, but must make a careful analysis and study of international trade and commodities.

Generally speaking, there are two kinds of commodities in the world market: competitive commodities and noncompetitive commodities. The competitive commodities are those that can be produced by all countries. The noncompetitive commodities can be further divided into the following three categories:

Category A includes products that cannot be produced by the importing countries. For example, Japan, Switzerland, and Singapore do not produce crude oil and many mineral products. The United States and the Soviet Union do not produce natural rubber, bananas, coffee, cocoa, and coconuts. Since they want to eat and use such products, they have to import them. These are all commodities that supply the needs of others.

Category B refers to those commodities that can be produced by the importing countries but are unable to fully satisfy their domestic needs. For example, the Soviet Union has been importing grain in recent years, China has imported and is importing grain and steel, and the United States is importing crude oil, sugar, and many strategic raw materials. These commodities belong to this category, and they are commodities that make up the deficiencies of others from one's surplus.

Commodities supplying the needs of others and those commodities making up the deficiencies of others from one's surplus largely exist in the trade between the developed industrial countries and the Third World countries, between East and West, between East and South, and between the Soviet Union and East European countries. This kind of trade supplements each other's needs. It is an outcome of the differences between various countries in productive factors, especially in natural resources and in the level of economic development. Behind this kind of trade, there is a relationship of international division of work. Some economists and some comrades in charge of economic work have set this kind of trade against the international division of work, holding that the principle of supplying each other's needs and making up others' deficiencies from one's surplus runs counter to the principle of international division of work. This is a misunderstanding.

Category C refers to technologies and technological products with permits. Since the importing countries have not mastered and cannot master in the near future the relevant technologies for producing certain products, they have to import such technologies. The trade in technology developed very quickly after the war and has become one of the most important items of invisible trade. West European and North European countries, the United States, Japan, the Soviet Union, East European countries, and the Third World countries are all importing advanced technologies and other suitable technologies. China is no exception.

The commodities in categories A and C are commodities supplying each other's needs. The tourist trade and some other invisible trades also belong to these categories. The commodities in category B are commodities for making up others' deficiencies from one's surplus. The theoretical basis for the three categories of commodities is the theory on supplementing each other's needs. In foreign trade of all countries, there are large quantities of commodities for supplying each other's needs and commodities making up others' deficiencies from one's surplus, and China is no exception.

On the other hand, we can also divide all commodities for international trade into three categories. The first category is called Ricardo goods, which are goods for trade due to the differences between various countries in labor productivity. The second category is H-O goods, which are goods for trade due to the relative differences between various countries in natural resources and productive factors. The third category is called the product cycle goods, which refers to the trading of new technologies. In international trade, the first and third categories of commodities are becoming more and more important, but those in the second category still exist in large quantities, and they will continue to exist in large quantities even in 100 years time. The commodities in the second category are those we usually refer to as commodities for supplying each other's needs or commodities for making up the deficiencies of others from one's surplus. Of course, behind this trade relationship, there is also the relationship of international division of work.

Question: Some comrades hold that China's foreign trade should be reformed in accordance with the theory of comparative cost. What do you think about this?

Answer: It is true that under the condition of full employment, the international division of work and foreign trade based on the theory of comparative cost can save social labor and increase economic benefits. When saying this, the so-called saving of social labor mainly refers to saving social labor by importing, in other words, the more we import from abroad, the more social labor we will save. Absolute liberalization in import and export trade can help maximize the savings of social labor. However, such international division of work and international trade entirely based on the theory of comparative cost only exist in textbooks and the theoretical thinking of some economists. They do not exist in reality. At present, we can hardly find any country that is really acting in accordance with the theory of comparative cost. None of the developed countries is doing so, nor the developing countries and regional developed countries. There are only two exceptions: Singapore and Hong Kong, which have special conditions. Most developed industrial countries are protecting their agriculture and are also providing trade protection to many industries (such as textile, garment, iron and steel, shipbuilding, household appliance, and auto industries) that have lost their comparative superiority. They do not want to give up their trade protection measures for the so-called saving of social labor. The reason is very simple, because otherwise there will be more workers losing their jobs and their agriculture and enterprises will go bankrupt. Most Third World countries cannot act in accordance with the theory of comparative cost either. This is simply because this theory does not accord with their demands for developing their national economy. In the production of any industrial products, most Third World countries do not have comparative superiority.

With regard to China's foreign trade, at present, and for some time to come, our comparative superiority is mainly in the fields of labor resources and certain natural resources. Therefore, in export, we still have to lay stress on the export of labor-intensive and resource-intensive types of products. Of course, we must also pay attention to gradually improving the structure of export products. For example, at present, we must try to promote the export of hardware and machinery equipment. But in imports, we must not follow the principle of comparative inferiority. Otherwise, the mighty torrent of high-quality and low-priced import goods will destroy many industrial enterprises in our country.

Question: What role does export actually play in socialist countries?

Answer: Apart from exporting the surplus or not-urgently-needed goods and those especially designed and produced for the world market in exchange for technologies, production equipment, and materials that are badly needed and are in short supply at home, through exporting, socialist countries can also promote economic growth.

In history, there have been many examples of promoting economic growth through export. Britain was the first to promote economic growth in this way. One of the main reasons for its economic growth after the 17th century was the development of export trade. (Monteur) - [Mang Tu 5345 0956], famous French historian, said: "Although some people hold that British foreign trade at the beginning of the 18th century only constituted 1/15 of its domestic production, if we

compare it with what happened in natural science, we can understand that a small quantity of ferment can bring about fundamental changes in the interior structure of a large quantity of materials." Similarly, the economic growth of the United States, Canada, Australia, New Zealand, and other countries in the 19th century was closely related to their export of primary products to west European countries, especially to Britain. After World War II, export also played a very important role in the economic growth of Japan, West Germany, Hong Kong, South Korea, and other countries and regions.

The increase in export has made and will continue to make important contributions to China's economic development. Our further efforts to promote export will certainly play an enormous role in China's economic growth and in realizing the great historical task of socialist modernization.

Question: A theoretical viewpoint holds that with the development of socialist industrialization, foreign trade will become less important. What is your opinion about this?

Answer: This viewpoint has existed for dozens of years. As early as the beginning of the 20th century, German economist Sombart had already put forth the theory of "the law of the reduction of importance of foreign trade." During the period between the two world wars, British economists Keynes and Robertson further expounded and proved the theory of reduction of the importance of foreign trade on the basis of the theory of comparative cost. After World War II, more than 10 well-known Western economists, including Hicks and Lewis, also expounded this theory from various angles. In the Soviet Union, Stalin and some economists also put forth a similar theory. In China, some economists also hold the same view.

Although the opinions of these economists are not exactly the same, they have a common point, that is, they hold that the international division of work is only restricted in the division of work between industrial countries and agricultural (and mining industrial) countries, and that international trade is only an exchange of industrial products and agricultural (and mineral) products. With the industrialization and development of the agricultural (and mining industrial) countries, the demand for import of industrial products and the export of primary products are reduced. Thus, foreign trade will also be reduced. They did not expect that after World War II, with the development of science and technology, the division of work among industrial countries would become the leading form of international division of work and the exchange of industrial products would become the leading form of international trade. The trade among the industrial countries has far exceeded the trade between industrial countries and primary products production countries and become the most important in world trade.

There is no limit to the development of science and technology, nor to the development of international division of work and international trade. Postwar statistics show that the importance of international trade has not been reduced but has been enhanced. An important symbol of this is the growth of the world trade coefficient and the world export coefficient. The world trade coefficient

rose from 16.4 percent in 1950 to 20.5 percent and 33.5 percent in 1970 and 1982. While the general coefficient of the world trade is growing, the trade coefficients of various types of countries are also growing in varying degrees. From 1950 to 1982, the export coefficient of Western countries rose from 7.7 to 15.3 percent, that of the Third World countries rose from 15.5 to 23.4 percent, and that of the Soviet Union and East European countries rose from 3.4 to 16.6 percent. China's export coefficient also rose from 4.2 percent in 1950 to 8.9 percent in 1984. This means that in the gross national products of western countries and the Third World countries and in the total products of society of the socialist countries, an increasing part of value is realized through foreign trade. These figures show that the world economy has already developed to this stage: International division of work and international trade have become a necessary condition for the normal development of the national economy of almost all countries and are playing an increasing role in the social and economic progress of all countries today. In short, facts cannot prove the existence of the so-called "law of reduction of the importance of foreign trade." China's policy of opening up to the outside world is entirely in conformity with the law of development of world economy and trade.

Question: With the implementation of the policy of opening up to the outside world, China has gradually become an important member of the world economy and its openness toward the world economy has attracted great attention in economic circles both at home and abroad. What is a suitable level at which China's openness toward the outside world should be maintained?

Answer: In economics, openness is measured by the proportion of the volume of foreign trade in the total national income or the gross domestic product. Now the openness of Singapore, which engages in a great deal of entrepot trade, is the highest in the world. Its openness in 1982 reached 328 percent, but that of Japan, the United States, India, and China in the same year was respectively 25.5, 15.3, 13.3, and 18.2 percent. In that year, the proportion of the volume of foreign trade of the Soviet Union in the net material output value was 22.8 percent. These figures show that China's openness was higher than that of the United States or India. Moreover, since the 3d Plenary Session of the 11th CPC Central Committee, China's openness has been increasing rapidly. In 1975 it was 5.4 percent, in 1980, it was increased to 15.3 percent, and in 1982 it reached 18.2 percent. It increased by nearly 250 percent in 7 years.

Generally speaking, the openness of small countries with comparatively poor natural resources is higher, and the openness of large countries with comparatively rich natural resources, such as the United States, the Soviet Union, Brazil, and China, is lower. China is a country with a vast territory and comparatively rich natural resources. There cannot be an unlimited growth in its openness. According to my personal reckoning, China's openness will be higher than 20 percent in the future, but will not exceed 25 percent.

Question: What are the advantages and importance of foreign trade in a socialist country?

Answer: They can be summed up as follows:

1. To obtain use value from imports. In the current stage, this means importing advanced technology and key equipment and importing some raw materials and civil necessities that are in short supply in our country.
2. To increase labor productivity through international division of work and professional production at home. In this way, the same amount of labor can create more wealth and use value.
3. To promote through export the development of enterprises mainly producing export products. Meanwhile, the development of these enterprises can also promote the development of other industrial departments and the economic growth as a whole.
4. To strengthen friendship and cooperation with the people of various countries and to safeguard world peace through promoting economic and trade relations.

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CSO: 4006/844

HEILONGJIANG SCORES FOREIGN TRADE INCREASE

OW301005 Beijing XINHUA in English 0938 GMT 30 Jul 87

[Text] Harbin, 30 Jul (XINHUA)--Heilongjiang Province has earned 565 million U.S. dollars from its exports since the beginning of this year, against 605 million in the whole year of 1986, officials here told XINHUA today.

An exports, trade, and technology seminar, ending here yesterday, produced 30 cooperation projects, as well as export gains worth 50.04 million U.S. dollars, the officials added.

Including 63.24 million U.S. dollars resulting from the seminar, the province has drawn 105 million dollars of foreign funds in the first half of this year, almost as much as the total in the past 8 years.

Heilongjiang has made 1.9 billion U.S. dollars in foreign trade earnings since 1981, representing an average increase of 36 percent per year, the officials said.

The officials attributed the advance of the province's foreign trade was attributed to the province's rich resources and good economic and technical foundations. [sentence as received]

Heilongjiang has oilfields, coal mines, forests, and non-ferrous minerals, and the fertile soil here produces soybean, corn, flax, and beet crops.

The province offers foreign investors preferential conditions in tax, the use of land, foreign exchange balance, material supplies, and capital circulation.

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CSO: 4020/248

STATISTICS FOR MAJOR JUNE EXPORTS PUBLISHED

OW220617 Beijing XINHUA in English 0533 GMT 22 Jul 87

[Text] Beijing (CEI)--Following is a list of China's major export goods in June and in the first 6 months:

| <u>Item</u> | <u>Unit</u> | <u>June</u> | <u>Total Quantity of Six Months</u> |
|------------------------------------|-----------------|-------------|---|
| Porkers | | 256,450 | 1,309,526 |
| Live poultry | in ten thousand | 342 | 1,923 |
| Fresh frozen beef and mutton | ton | 2,997 | 22,345 |
| Fresh frozen pork | ton | 10,909 | 46,368 |
| Frozen chickens | ton | 1,408 | 4,838 |
| Frozen domestic rabbits | ton | 1,877 | 7,039 |
| Fresh eggs | in thousand | 92,697 | 548,938 |
| Fresh-water and marine products | ton | 18,594 | 101,974 |
| Cereals | ton | 735,049 | 3,896,520 |
| Rice | ton | 162,353 | 554,007 |
| Soybeans | ton | 226,748 | 1,142,970 |
| Dry mixed beans | ton | 35,629 | 293,105 |
| Maize | ton | 290,773 | 1,680,086 |
| Other grains | ton | 19,546 | 226,352 |
| Vegetables | ton | 62,363 | 260,845 |
| Fruits | ton | 6,740 | 48,710 |
| Natural honey | ton | 5,925 | 33,708 |
| Tea | ton | 18,237 | 71,861 |
| Tinned food | ton | 55,004 | 241,577 |
| Peanuts and shelled peanuts | ton | 34,151 | 200,862 |
| Filature silk | ton | 934 | 3,999 |
| Raw cotton | ton | 80,484 | 440,063 |
| Cashmere | ton | 179 | 897 |
| Rabbit hair | ton | 443 | 2,011 |

[Continued on following page]

| <u>Item</u> | <u>Unit</u> | <u>June</u> | <u>Total Quantity of Six Months</u> |
|--|---------------------------|-------------|---|
| Tungsten ore | ton | 1,014 | 5,475 |
| Hog bristles | ton | 788 | 4,177 |
| Salted porker casing | ton | 939 | 4,162 |
| Medicinal herbs | ton | 7,893 | 38,239 |
| Coal | ton | 1,117,482 | 5,630,278 |
| Tyres | set | 69,977 | 363,794 |
| Paper and paperboards | ton | 33,253 | 141,244 |
| Cotton yarn | ton | 24,528 | 126,714 |
| Cotton cloth | in ten thousand meters | 21,441 | 111,301 |
| Polyester cotton cloth | in ten thousand meters | 9,615 | 51,794 |
| Pure silk and satin | in ten thousand meters | 1,239 | 5,803 |
| Carpets | square meter | 2,896,572 | 5,167,505 |
| Steel | ton | 38,086 | 142,728 |
| Zinc and zinc alloy | ton | 9,600 | 34,192 |
| Tin and tin alloy | ton | 1,471 | 6,167 |
| Tungsten | ton | 63 | 105 |
| Antimony | ton | 3,467 | 11,476 |
| Machine tools | set | 16,604 | 74,813 |
| Electric fans | set | 272,858 | 2,042,789 |
| Garments | in ten thousand pieces | 10,696 | 63,719 |
| Rubber or plastic soled cloth shoes | in ten thousand pairs | 1,172 | 6,436 |
| Wrist watches | | 2,382,639 | 11,467,943 |

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CSO: 4020/248

EXPORTS HAMPERED BY POOR PACKAGING, SHORT WEIGHT

HK270706 Beijing CHINA DAILY in English 23 Jul 87 p 2

[Article by staff reporter Tian Ying]

[Text] Inspections of Chinese commodities show the quality of several export products has made distinct improvements this year. But poor packaging and underweight products still hamper China's export trade, the country's authorized inspection bureau said yesterday.

The State Administration of Import and Export Commodity Inspection and its [words indistinct] examined 390,000 batches of goods for export in the first 5 months of this year.

Some export commodities have won praise from foreign businessmen for their high quality. They include crude and refined oil, cotton clothes, bicycles, electric fans, tea, leather shoes, and down.

About 1.5 percent of exports examined by the inspection departments were found to be below required standards. This was due mostly to poor packaging and short weight, which have been big problems in China's export trade for a long time.

According to the inspection administration, the government is making efforts to overcome the obstacles. Measures to improve packaging were listed in New Measures for Export Commodity Inspection approved by the State Council in May.

Priority will be given to the packaging of food, drinks, cigarettes, machinery, porcelain, textiles, garments, cotton, hardware, and dangerous products.

The State Packaging Import and Export Corp. and the State Packaging Corp. are required to make joint efforts to guarantee the quality of packaging materials, improve standards for packaging various products, and tighten supervision over packaging.

The new measures also stipulate that up-to-date measuring scales will be installed at ports to guarantee that goods leaving the country are not underweight.

The country's inspection bureau also inspected 60,000 consignments of imported products in the first 5 months of this year and found 6,718 of them below requirements.

The substandard products include natural rubber, steel plates, steel tubes, aluminium ingots, aluminium materials, machinery, timber, plastic products, and leather.

Some foreign firms ignored the contracts and provided low-quality products or old equipment instead of the ones specified.

The State Administration gave some examples:

-- Hunan Packaging Co. imported three production lines from Hong Kong. According to the contract the lines were Japanese products. But when the equipment arrived, they were found to be only combinations of used machines. Five of the electrical motors had been made in China's Dalian City 6 years ago.

-- Six-ton trucks manufactured by a Japanese firm developed problems after running for 10,000 to 30,000 kilometres.

-- Flower cultivating machines imported from Holland were found ineffective.

-- Insulators imported by the Ministry of Water Resources and Electric Power were found to be corroded. They were returned and the foreign firm involved paid compensation.

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CSO: 4020/248

COORDINATING TAXATION WITH OPEN POLICY

Fuzhou FUJIAN LUNTAN [FUJIAN FORUM] in Chinese No 3, 5 Mar 87 pp 24-25

[Article by Hu Yijian [5170 1837 1696] of the Shanghai Finance College of Finance Department: "Coordinating Taxation with Opening the Economy"]

[Text] An important policy variable in opening the economy is taxation of foreign trade and investment related activities; the tax rates, tax breaks, and scope of tax collection all will influence the pattern of opening the economy.

A. Economic Impact of a Tax on Foreign Trade and Investment Related Activities.

The major forms of taxation related to opening the economy are import-export tariffs, income taxes (including enterprise income taxes and individual income taxes), and industrial and commercial consolidated taxes. These three types of taxes have different economic characteristics, each serves different functions, and they have different impacts on the economy.

1. Tariff. The tariff represents a nation's exercise of sovereignty, and is a tax levied on commodities imported or exported. The tariff is founded on international trade, and regardless of whether it is a revenue tariff or a protective tariff, it either directly or indirectly inhibits international free trade, and restricts commodity imports and exports. Although tariffs restrict development of international trade, such trade is, after all, unlike domestic trade; each nation has its own independent interests, and each must have an economic structure in tune with the requirements for developing that nation. Furthermore, it is not possible to realize perfect competition in international trade, and it is inevitable that such trade will be affected by the different approaches states take in levying protective tariffs, in terms of the scope of taxation, formulation of tax rates, and tax reduction provisions. That is to say, a policy of selective tariffs is employed to protect new and developing domestic industries, to regulate the industrial structure, and to make the economic structure more rational.

2. Income Tax. The income tax mainly influences the amount and direction of fund circulation. First, the income tax influences the influx of international funds, and consequently has an impact on the overall national economy. In a society with a perfectly competitive economy, the goal of economic policy-making is to maximize profits; on the other hand, the income tax divides up

investment profits, reduces the earnings of investors, and thus influences the influx of funds. Second, the income tax influences the direction of fund circulation, and consequently influences the structure of the national economy. In a general sense, the income tax only has an effect on income, and cannot produce a braking effect. The tax is levied on the amount of income on a proportional or progressive basis. The same tax rate is applied to like incomes, and different tax rates are applied to unlike incomes; this embodies the principle of vertical and lateral equitability, and does not influence the direction of fund circulation. But a policy of selective tax collection applied preferentially produces a braking effect, and influences the direction of fund circulation. The direction of fund circulation is also linked to the rate of return on investment; in areas and sectors where the investment return is high, there is a large influx of funds, and vice versa. There are many factors which shape the investment return rate, among which taxation is a relatively direct policy factor. A tax-reduction policy can change somewhat the actual investment return rate, and play a certain role in changing the economic structure of regions and sectors.

3. Industrial and Commercial Consolidated Tax. When it comes to levying taxes on commodities imported or exported, or on goods sold domestically which were produced by foreign-owned enterprises, the industrial and commercial consolidated tax will also influence the import-export trade and fund circulation. Levying industrial and commercial consolidated taxes on import commodities will influence the import-export trade by reducing the quantity of goods imported, whether as a result of reduced real income for imported goods, or as a result of higher prices for such goods. Likewise, levying industrial and commercial consolidated taxes on export commodities will reduce the real income from such exports, influence the price of the goods, and lessen their competitiveness.

B. Selecting and Coordinating a Policy on Taxation of Foreign Trade and Investment Related Activities Policy

Taxation of foreign trade and investment activities is a major component of the open policy, and should be coordinated with the strategy of opening in order to aid expanded trade, attract foreign capital, promote technical transformation, improve management, and strengthen international competitiveness. Since the different categories of taxes have different economic impacts, and the same category of tax has different economic functions, and since taxation of foreign trade and investment related activities involves a policy of international taxation, the selection of such a policy should be coordinated.

1. Coordinating Policy Goals of the Three Types of Taxation. Taxation of foreign trade and investment related activities has three functions: an income distributing function, where funds are accumulated through taxes to develop the national economy; an economy regulating function, where the industrial structure is adjusted and development of domestic fledgling industries is protected through a given tax policy; and an economy-opening function, where tax advantages are employed to attract international funds and to expand import-export trade. The purposes of the revenue tax, the protective tax, and the preferential tax are contradictory. The preferential tax, by aiding the expansion of international trade and the influx of capital funds,

helps to broaden the tax base, and increase tax revenues. But if the preferential taxation policy has only a slight impact, we will not be able to achieve the goal of increasing revenues. The preferential tax is the antithesis of the protective tax; the preferential tax encourages trade and the influx of capital funds, whereas the protective tax deters trade and the influx of capital funds. An analysis of the different policy goals behind taxation foreign trade and investment related activities shows that, in order to conform to China's strategy of opening, we should consider making tax advantages the main part of our foreign trade and investment taxation policy, employ relatively low tax rates, annul those that are lax, and amortize those that are high. Under given circumstances, we could employ protective taxation. At the same time, we also must proceed from the reality of a backward economy and lack of capital funds in China, and make taxation aid as much as possible the accumulation of capital funds for the state.

2. Coordinating Policy Regarding the Three Types of Taxation. Because tax advantages applied to the three types of taxation produce different results, we must think about selection and coordination of policy about the three taxes regarding such tax advantages. In import-export trade, tariff advantages encourage such trade; with respect to products of joint ventures of foreign-owned enterprises, or import-export products, industrial and commercial consolidated tax advantages may avert price swings, and favor competition; as for the profits of joint ventures and foreign-owned enterprises, income tax breaks will help attract investment, and reinvesting tax refunds will encourage accumulation. Different results are obtained as a result of applying tax breaks through the three taxes, and the tax breaks should be selective. Import tariff walls arrest imports, while low tariffs encourage imports, which help make up for inadequate domestic supplies. But import trade is checked by international revenues and expenditures; due to limited foreign exchange, the only approach is to selectively import products which are in shortage domestically.

Income tax advantages help attract investment from abroad, and raise the actual return rate on investment. But income tax breaks also are checked by the tax system of the government of the investor nation. If there is no bilateral or unilateral accord on favored status between the governments of the investor nation and China, then China's tax breaks in reality will be enjoyed by the government of the investor nation rather than by the investor directly, so the effects of the tax advantages will not come into play. There is a certain limit to income tax breaks on investments; specifically, in the absence of a signed bilateral tax accord, the actual tax rate paid by the investor after application of the tax break cannot be lower than the tax rate of the government of the investor nation, otherwise there will be a tax transfer between the governments. Because the income tax rates of various countries are different, in order to make the tax obligations equitable, China must consolidate its tax rates. Consequently, thinking in terms of revenue and a policy to encourage investment, we can select tax rates which represent moderate to low preference; namely, the tax rates of the governments of the major investor nations in the international sphere.

Policy is reflected to some extent in the industrial and commercial consolidated tax advantages. The reason is that, first, the circulation tax has been made a principal part of China's tax system; the circulation tax generally is levied on the production and marketing wholesale-retail link, and the tax so levied is relatively heavy. On the other hand, the income tax is the principal tax in the developed capitalist countries; the circulation tax is applied only selectively, and the tax levied in that case is comparatively light. Second, there are relatively few limiting factors with the circulation tax breaks, so they can be employed to lighten the tax obligation and encourage investment.

The income tax is the one which is most capable of reflecting the level of the tax obligation, but for the actual tax burden, we must look at the overall tax obligation. There are quite a few income tax advantages in China at present, whereas the industrial and commercial consolidated taxes are somewhat weighty. Consequently, the overall tax obligation is still relatively heavy. On the other hand, the income tax advantages also are bounded by the tax system of the government of the investor nation. As a result, reducing the industrial and commercial consolidated tax obligation will enable us to achieve the goal of lightening the overall tax burden, and allow the tax advantages to materialize.

3. Coordinating Our Domestic and Foreign Tax Policies. Only a preference policy will provide the encouragement and stimulation necessary for our opening up to the outside. But we also must give full consideration to the principal effects of tax advantages on the domestic economy, and make the two economies equally competitive. In our tax policy, we must coordinate foreign taxes with taxes on domestic enterprises. The tax obligation of China's domestic enterprises at present is greater than that on joint ventures and foreign-owned enterprises. In the strategic sense, this discrepancy in tax obligations is advantageous in terms of attracting foreign capital in the initial period of opening up to the outside, or for the specially designated zones, but it cannot continue over the long term. As we get more deeply engaged in reform of the economic system, we should gradually lessen the tax obligation of the domestic enterprises and expand their autonomy in order to arouse the initiative of those enterprises.

4. Coordinating Tax Policy in the International Sphere. Tax policy is formulated in terms of the interests of one's own country, but international trade and international fund circulation are transnational economic activities, and foreign trade and investment related taxation involves economic interests between nations. Consequently, it is essential that taxes be coordinated between the governments of the various nations. Take the coordination of income taxes as an example; since two or more taxing authorities may apply different tax principles (income sources or residence) to the same tax subject, there inevitably will be multiple taxation, which increases the investors' tax obligations. This is detrimental to international capital fund circulation, and requires governments to cooperate to eliminate multiple taxation by means of tax deductions, tax reductions, or tax exemptions, based on established criteria.

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CHANGES NEEDED TO IMPROVE INVESTMENT CLIMATE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 4, 27 Apr 87 pp 38-40

[Article by Huang Hao [7806 3185]: "New Ideas, New Ideology, and New Workstyle Needed To Improve Investment Climate"]

[Text] After the State Council's recent promulgation of the "Provisions to Encourage Foreign Investment" (abbreviated hereafter as the "22 Points"), open cities throughout China, one after the other, responded enthusiastically. Many foreign investors have shown cautious interest in the provisions, and have adopted a wait-and-see attitude. One sentence can be used to summarize the present "fence-straddling" attitude of foreign businesses: Provisions are one thing, but whether or not they are implemented is another. Therefore, in order to improve Sino-foreign communication and coordination, it is imperative that we conscientiously implement the "22 Points," and in order to further dispel any doubts that foreign businesses might have, we must establish a good reputation of long-term trust and close cooperation.

Opening up to the outside and utilizing foreign capital is a fundamental, long-term national policy. It is not only the guiding ideology of our foreign economic relations, it is also our sincere goal. Successful achievement of this goal does not depend on wishful thinking on our part, but rather on close coordination and joint effort by both the Chinese and foreigners, and a mutual coordination between the desires of foreign investors and our own objective of using foreign capital. Therefore, conscientiously analyzing and correctly understanding the particular conditions of the current Chinese and international investment climates in our work will contribute to the coordination of the aspirations and actions of both sides, and the adoption of measures that will reduce the differences between our joint objectives, paving the way to further expand use of foreign capital.

Let us first look at the area of international investment. After the midseventies, as a result of the worldwide energy crisis and adjustment of the industrial structure, the focal point of international investment progressively shifted from developed and newly industrialized counties to developing countries. Since the political situation in the Asian-Pacific region had been fairly stable and economic development had been comparatively rapid, the region possessed a great amount of economic growth potential, and attracted the attention and aroused the interest of

international investors. The open door policy that was promptly introduced by the Chinese Government played a positive role in promoting foreign business international banking consortium. With conditions and approval being comparatively more strict than before, money for buying and selling dropped in the first half of 1986 to \$13 billion from the more than \$60 billion for the same period in 1981. Although the present international debt problem has improved somewhat through the joint efforts of the World Bank and each of the concerned governments and Western commercial banks, it still exists as a real threat to the international financial industry, and people are still unable to thoroughly remove the shadow of the debt crisis within a short period of time. Because of this, the scope of the international banking consortium's available money for buying and selling will not increase very quickly in the future, and it will still be fairly difficult to raise funds. In contrast with the situation of the international banking consortium, the international bond market in the last few years appears to be extremely lively, with a substantial rise in the issuing of bonds. According to the statistics of international clearing banks, the total value of international bonds, which were worth \$53 billion in 1981, reached the record amount of \$111.3 billion in 1986. The rapid development of the international bond market has caused structural changes in the current international money market. That is, the pattern of international financial fund has now progressively shifted from the indirect system of capital being allocated by multinational banks in developed countries towards a direct and more flexible system that allows diversification in raising funds, investing, and going into internationally negotiable securities. The upsurge of "Euro-stock" and the lifting of total control of the stock market by the London money market on the historically significant date of 27 October 1986, accelerated the pace of this kind of structural transitional change. We should pay careful attention: International borrowers who directly raise capital by using "Euro-bonds" and "Euro-stocks" have always chiefly been developed, capitalist countries. This is because, first of all, this direct way of raising funds requires that an international stock company with a worldwide reputation strictly evaluate the borrower's investment credit, financial situation, management ability, as well as its risks, and only those who attain a certain international rank can qualify to raise capital by issuing stocks and bonds. Consequently, the stock market borrower must have a good business reputation, good management ability, and must possess specified knowledge and an ability to issue and manage stocks. Developing countries are lacking in just these qualities. Currently, China's attempts to raise capital by means of bonds are still very limited: since 1982, we have altogether issued 13 sets of bonds raising the sum of about \$1.03 billion, with the borrowers limited to a few financial institutions with good credit, such as the Bank of China, the China International Trust and Investment Corp, and the Fujian Trust and Investment Corp. Although we can expand the scope of raising capital via bonds in the future, it is still far from being able to meet the needs of China's internal economic investments. Consequently, the enthusiasm of investors for investing in the Asian-Pacific region has been comparatively high in the past few years. However, in utilizing foreign capital, the Asian-Pacific economic region is not only

faced with intense competition from Latin America, West Africa, and South and Central Europe, there now exists a similar fierce competition within the Asian-Pacific economic region itself. Currently, the bulk of international investment in the Asian-Pacific region is still mainly concentrated in Singapore, South Korea, Taiwan, Hong Kong, and other so called newly industrialized countries or areas. Moreover, foreign countries have been motivated to sharply increase investments in India due to the relaxed restrictions of foreign investment conditions there in the past few years. According to business statistics of international companies, foreign capital approved by the Indian Government leaped from \$173 million in 1981 to \$989 million in 1983, with foreign capital reaching \$2,014,000,000 in 1985, the highest ever. Joint agreements by foreign investors with the Indian Government or with private companies have increased from 752 projects in 1984 to 1,024 projects now. India's awe-inspiring momentum in attracting foreign capital undoubtedly places even higher demands and more competitive pressure in our own work of utilizing foreign capital.

Looking next at the flow of international capital, the debt crisis that developed in China in 1982-1984 caused a large reduction in the amount of money used for buying and selling in the development.

Therefore, direct foreign investments that fuse funds, technology, and management all into one are still the most important way for China to utilize foreign capital. Direct investments not only enable us to mix funds, but, more important, they enable us to import advanced technology and management experience from abroad and to open up foreign markets, which are quint-essential ways of utilizing foreign capital. Advanced technology and management and administrative methods from abroad are the crystalized result of over 200 years of knowledge and experience of capitalist commodity economic development, and this undoubtedly has important reference value for China's planned development of a commodity economy and its national industry.

China has a vast market, an abundant labor force, and is rich in natural resources. In the past few years, we have invigorated the domestic economy, implemented open door strategies and policies, progressively constructed and perfected social facilities and various economic laws and rules and regulations concerning our dealings with foreign countries, as well as adopted a series of preferential policies in areas such as tax revenue, rentals, and profit distribution that have obtained definite results and truly played a big role in attracting foreign business investments. However, there is no need to hide the fact that our work in utilizing foreign capital is still far from being able to meet our domestic economic construction needs. The amount of foreign capital introduced from other countries is comparatively insufficient. There exist many areas that need improvement in both our concept of and in our actual work of utilizing foreign capital, and the newly announced "22 Points" represent exactly the concentrated expression of these needs. In order to guarantee the smooth functioning of our work in utilizing foreign capital, China's economic workers should have the courage to eradicate old concepts, free themselves from old ideas, improve their workstyle, and

strive to establish new ideas, new ideology, and new workstyles suitable for economic work in the international "open door" economic climate.

First, we need to develop an international competitive consciousness. The sphere of international economics is one where the various monopolized forces are the most concentrated. All countries and markets are confronted with different degrees of competition and challenge. The situation of the international investment sphere is even more like this. As soon as possible, China must cast aside the passive attitude of waiting for gains without investing any effort, fully understand the intensity of international competition, formulate relatively preferential policies, and actively conduct propaganda in and establish contact with foreign countries. Only in this way can we accomplish a comparatively beneficial utilization of foreign capital. Representatives that recently attended a "Asian-Pacific Summit Conference on Doing Business" in Macao considered that the reasons that helped bring about a sharp increase in investments in India are "favorable factors like India's business reputation, rather good enterprise management and technology standards, contracts with legal guarantees, and the fact that they conduct business in English," whereas they held that "there are innumerable difficulties when investing in China." Although this viewpoint is not necessarily all-pervading, it should compel us to think deeply about the issue.

Second, we need to foster a consciousness of equality and mutual benefit. This sounds like an old adage, yet to wholeheartedly understand its meaning is not quite so simple. By investing in an enterprise in China, a foreign business, after having undergone the legal procedure of registering, becomes an economic legal entity of our country. Therefore, in handling a foreign capital enterprise, we must give national remuneration on a equitable basis, and must not discriminate against anyone in any way. The rights and duties of both the Chinese and foreign sides of an enterprise are expressly provided for in the enterprise contract, and ought to be protected by law. We should eliminate the old idea of profit by exploitation. The starting point of our utilization of foreign capital should be jointly beneficial. Only in this way can we help safeguard and strengthen a basis for long-term Sino-foreign cooperation.

Third, we need to develop a consciousness of rule by law. In the past, owing to the fact that our economic laws and rules and regulations were not perfected, many economic workers were accustomed to relying on the administrative methods of one particular company to solve economic problems. They were also accustomed to saying that the rule by law of foreign businesses was basically impractical. Owing to China's more stable political situation, in addition to more protective agreements among governments, the foreign investor's emphasis on political risks that the government might take over or nationalize the enterprise has gradually shifted to such areas as whether or not an enterprise enjoys the same economic treatment, and legal rights and guarantees, as other enterprises in China. If we only pay attention to protection at the highest level, and ignore guarantees for smaller concerns,

then we cannot say we have a good and stable investment climate. Currently, political hazards for foreign businesses still exist, and this shows that, in many economic areas, there are still no laws to depend on, that laws are not being complied with, and there exist various kinds of provisional measures. These conditions have created a foreign capital enterprise production environment that lacks permanence, stability, and safety, and which has shaken the confidence of foreign business investors. Therefore, on the one hand, China needs to rapidly establish and perfect various rules and regulations concerning foreign affairs, and on the other, to safeguard the unity and effectiveness of our current laws and reduce the illegality of administrative management provisions, thereby reducing the political risks for foreign business investors and guaranteeing the long-term, stable development of economic activity.

Fourth, we need to develop a consciousness that promotes a more highly effective sense of service and cooperation. In our current work of utilizing foreign capital, common use of foreign capital exists, but the conditions for cooperative use of foreign capital are relatively few. Foreign businesses who directly invest in China will undoubtedly run into many problems and difficulties with respect to things like the laws, the social system, productive and interpersonal relations, and the language. These problems all require that we have an enthusiastic and cooperative attitude, that we be highly efficient in providing services and cooperative assistance, and that we respond to doubt by helping to solve problems. Only in this way can we promote the shaping of a good investment climate. The economic conditions of foreign investors not only include whether the economic base facilities are well equipped with supplies of raw materials, a labor force, and money for buying and selling, as well as "hard" conditions, such as rent and tax revenue, they also include whether the departments responsible for work and cooperation have standards of quality for their staff and workers and a work attitude that fosters full cooperation, and "soft" requirements, such as the punctuality and effectiveness of the various consultative services. If we are sluggish about getting things done and dispute over trifles, if we do not stress effectiveness, if everything depends on contacts and securing advantages through pull or influence, other more favorable conditions will be to no avail. Under China's current circumstances of being powerless to quickly perfect the conditions of our comparatively backward economic base, it seems even more pressing and important that we rapidly improve our work-style, raise our efficiency, and make improvements in our pursuit of more vigorous and effective cooperation with foreign businesses. This is also a good way of getting more done by spending less money.

In short, all of our current efforts are not for the purpose of pleasing foreign businesses, but rather to further improve the foreign business investment climate, to bolster the confidence of foreign business investments, and to provide even more opportunities for investment. In doing so, we will achieve more and better foreign investments, master more and better technology and management experience, and quicken the process of the four modernizations

in China. At the same time, the efforts themselves, the results of opening up to the outside, will force us to acknowledge and assimilate the new ideas, new ideology, and new workstyle necessary to engage in economic work in the international "open door" economic climate. Only in this way can we truly learn how to utilize foreign capital, progressively expand the "limited climate" created for foreign businesses in specific places into a nationwide "expanded climate" with even greater scope and more beneficial use of foreign capital, and thus better serve the four modernizations.

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RAILROAD INDUSTRY QUALITY CONTROL

Commentary on Quality Control

Beijing RENMIN TIEDAO in Chinese 29 Mar 87 p 1

[Commentary: "Effective Ways To Control Quality"]

[Text] Some of the factories in the railroad industry have carried a system of product rejection due to poor quality, put enterprise quality control first, and inspired their staff members and workers to stress quality first, work safely, and produce top-grade products. This is an effective system and deserves to be popularized vigorously!

Product rejection is a further development in quality-control (QC) in the railroad industry. Since 1980, overall QC has been generally carried out throughout the railroad industry, advanced experience overseas has been studied as reference, and QC group activities have been launched, enabling QC to come up to modern management standards, some products to win "national," "provincial," and "departmental" awards for excellence, and the achievements to be obvious to everyone. But developments have been uneven. In some enterprises and units, QC has still not been given an important place on the agenda, and QC group activities are still very limited in scope; product quality has not been stable, and certain quality slip-ups have continued to occur, causing losses which could have been avoided; some comrades have stressed the quality issue in words but not in deeds, considering it important only when problems have arisen. The product rejection system has set up an absolute quality authority with a system of rewards and penalties, evaluated all enterprise economic actions based on product quality, spurred every enterprise cadre and worker to stress product quality and do a good job of all product quality work, and improved economic and social results. The Qiqihar and Zhuzhou rolling stock plants having won gold medals for 2 consecutive years, and the Luoyang rolling stock plant having won first prize for 2 consecutive years, is clear proof of this.

Some comrades think that the product rejection system may not recognize when product quality is good enough and put undue emphasis on striving for quality. This is a misunderstanding. What is reasonable product quality should be reflected in product quality standards, and the central goal of the product-rejection system is precisely to uphold product quality standards and ensure

product quality. The present issue is not that any undue emphasis has been put on striving for quality, but rather that quality standards have been unattainable, with some enterprises having engaged in nonstandard production, and others having not even formulated rational scientific standards. The product-rejection system will enable better basic work to be carried out, the inspection system to be improved, work to be done strictly according to quality standards, and trustworthy products to be produced.

The "two increases and two savings" campaign is now being developed intensively and extensively throughout the railroad industry, and is providing favorable conditions to promote the product-rejection system. The reforms have pushed enterprises into the competitive forefront, and quality has become their lifeline. If product quality is not improved, enterprises will not be competitive; producing high-quality, marketable products is the best way to save. Therefore, all factories must give conscientious priority to the quality issue, actively prepare and create the conditions to promote the product-rejection system, and not to be weak and bungle the change to win this difficult battle. In carrying out the output-related economic responsibility system, the whole railroad industry should not treat quality in terms of percentage, but should make it the foundation, and use it as the basic coefficient to examine other economic targets. This foundation must not shake, or the whole "edifice" might collapse.

Quality Control Carried Out

Beijing RENMIN TIEDAO in Chinese 29 Mar 87 p 1

[Article by You Junxiong [3266 6511 7160]: "Some Rolling Stock Plants Have Carried Out the Product Rejection System; Quality Consciousness Has Been Established, and Many Top-Grade Products Have Been Produced"]

[Text] After examining the output-related economic responsibility system, some plants in the rolling stock industry have achieved initial successes in carrying out the product-rejection system.

Along with improving quality consciousness training in the past few years, the industrial system has generally promoted overall quality control, established and improved a strict product quality insurance system, set up over 4,800 QC groups, and produced many products that have won "national," departmental, and provincial awards for excellence. Based on this, the rolling stock industry headquarters decided to institute an overall product-rejection system in its plants at the beginning of 1987. That is, until product quality targets reach stipulated standards, it will wholly or partially veto the awards and material benefits that producers could have won. Based on actual conditions in their units, some plants have now linked bonuses, some basic wages, and unit awards in all their subordinate units to product quality, carrying out a system of rewards and penalties and ensuring steady improvements in quality. The Dalian rolling stock plant has stipulated that bonuses in all of its units will be calculated by multiplying economic contract bonuses by a product quality coefficient. All major responsible units who manufacture poor-quality

products that cause major moving accidents, affect the plant's ability to fulfill state plans, or cause the quality of departmental, provincial, or top-grade products to be lowered, will have 20 percent of their wages deducted, 30 percent of their leaders' wages deducted, and all of their bonuses stopped. Moreover, national quality examination targets will become the contracted targets of all units in the plant. Quality will be assessed montly, quarterly, and annually, and bonuses will be reduced 30 percent in every unit that does not fulfill its quality targets. Based on advanced plant standards, historical records, and trade records, three grades of citations will be given for good product quality.

Western China's Qiqihar, Zhuzhou, and Luoyang rolling stock plants have all implemented the product-rejection system, carried out an internal policy of paying higher wages for higher quality, increased quality price differences, changed the basis of bonus calculation from piecework workpoints to quality, and improved overall quality control. Since July 1986, the Luoyang plant has carried out an "absolutely superior product-rejection system," set up product quality spot check and examination groups, spot checked results every month, distinguished the three product grades of top-grade, first-grade, and standard-grade, paid according to quality, and increased the distance between the grades. In this way, it changed the past situation of examining quantity instead of quality, and raised the quality consciousness of its staff members and workers. The plant's assembly shop had never been able to solve the key problem of "overly dense steam" in smokeboxes. After the first two months of carrying out the product-rejection system and paying higher wages for higher quality, all bonuses in the shop were stopped. The staff members and workers throughout the shop then made a concerted effort, solved the difficult key problem in less than 2 months, and had their bonuses fully restored by October 1986. When the maintenance bureau spot checked product quality in the fourth quarter of 1986, the steam locomotives built by this plant won first place throughout the railroad industry. Since the Qiqihar and Zhuzhou rolling stock plants won national gold medals for axles in 1985, their C61 and large D35 forcecepts-type freight cars have also won national gold and silver medals for excellence.

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OFFICIAL ON REFORM TREND IN EAST EUROPE

HK250232 Shanghai SHIJIE JINGJI DAobao in Chinese 6 Jul 87 p 1

[Report by Ruan Jiangning [7086 3068 1337]: "Reform Is an Irreversible Historical Tide in Socialist Countries--An Zhiwen Speaks of His Impression on a Visit to Five East European Countries"]

[Text] Changsha, 3 Jul--An Zhiwen, adviser to the State Commission for Restructuring the Economic System, who accompanied Premier Zhao Ziyang on his recent visit to five east European countries, said with deep feeling at the annual meeting of the China Society for Study of Restructuring the Economic System held here that the recent visit to the five countries can be summed up in one sentence: Reform is an irreversible historical tide in socialist countries.

He said that no matter whether we were in Warsaw, Budapest, Prague, Sofia, or Berlin, we found that all these socialist countries admit that the socialist system in practice is after all young and developing and that building and perfecting this system is a long-term task. All these countries are summing up their experience and are exploring ways to reform the economic and political structure. All the countries stress learning from each other and discourage mechanically copying from each other.

An Zhiwen said that it is not easy to gain such an understanding and that a high price has been paid for it. This is a historical progress and socialism is very promising.

An Zhiwen generalized various socialist countries' theoretical understanding of the socialist economy into four common points:

1. They all hold that science and technology have made revolutionary changes after the war, the international development in science and technology has a decisive influence on economy, and socialist countries are behind the industrialized countries in using achievements in science and technology. Therefore, making full use of contemporary achievements in science and technology to perfect the economic mechanism is a pressing task.

2. They all hold that to satisfactorily reform the economic structure and to increase the efficiency and benefits of economic operation, it is imperative to make use of market mechanism and the relationship between commodity and currency.

3. Regarding the forms of ownership, they all admit the existence of various forms of economy and operation with public ownership as the guiding factor and the necessity of ensuring the vitality of socialism through competition among various forms.

4. They all admit that socialism has tremendous potential and that bureaucratism affects vitality, enthusiasm, and efficiency. Therefore, various socialist countries stress the necessity of correctly handling the relationship between the party and the masses of the people, developing democracy, and exploring ways to reform the economic and political structure in light of the level of development of respective countries.

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CSO: 4006/844

GREATER ROLE FOR AGRICULTURAL MECHANIZATION URGED

Beijing NONGMIN BAO in Chinese 12 May 87 p 1

[NONGMIN BAO Interview with Song Shuyou, director of the Agricultural Mechanization Bureau of the Ministry of Agriculture, Animal Husbandry and Fishery: "We Must Give Full Play to the Role of Mechanization in Agricultural Production"; date and place not specified]

[Text] One component of agricultural modernization is mechanization of the implements of agricultural production, and many rural cadres and residents are very concerned about developments in this area. Recently, Song Shuyou [1345 2885 0645], director of the Agricultural Mechanization Bureau of the Ministry of Agriculture, Animal Husbandry Fishery, answered questions on this issue posed by a reporter of this journal.

Question: What are some of the noteworthy developments in China's effort to mechanize agricultural implements in recent years?

Answer: First, there has been a great increase in individually owned implements ever since peasants gained autonomy in the purchase and operation of agricultural implements. Individually owned tractors totaled only 38,000 in 1980 but rose to 4,716,000 last year, accounting for 87.8 percent of all tractors owned throughout the nation. Individually owned agricultural motor vehicles increased to 318,000 last year, accounting for 61.6 percent of all such vehicles. And the value of individually owned implements equaled 66.2 percent of the national total last year. Second, the number of small implements has grown rapidly. In each of the past several years, more than 500,000 small tractors have been sold, and small tractor accessories have also greatly increased. Third, agricultural implements are now operated by a variety of economic entities and in a variety of forms--the state, collectively, cooperatively and individually--and repair and support service for such implements has gradually expanded. Basic-level agricultural implement operations and service organizations have grown from primarily administrative entities into centers specializing in service, and many now are responsible for their profits and losses and boast good economic results.

Question: What kinds of problems plague agricultural mechanization?

Answer: In recent years, the primary problems in this work have been as follows. The increase in agricultural power machinery has outstripped energy

supply. More and more tractors and other internal combustion machinery are being used beyond their operational life spans. Many implements are not equipped with necessary accessories; in particular, the number of accessories per tractor has declined, and principal field work volume for agricultural machinery has not kept pace with the increase in the number of implements owned. Peasants have trouble funding purchases of large and medium-sized equipment. The work of administering and servicing agricultural mechanization is weak, organization is poor, and service is backward and lacks variety. Some implements that are urgently needed in agricultural production are in short supply or are not available at all, and the quality of existing equipment is substandard. These problems have seriously affected agricultural mechanization and the development of the rural economy.

Question: What must we do to resolve these problems?

Answer: First, we must vigorously stress the importance of increasing supply and reducing waste of agricultural energy. Supply of electric power will be ensured during the Seventh 5-Year Plan, so we should use electricity as much as possible to power stationary machinery. We must also do a better job of planning and allocating agricultural fuel, correct unhealthy practices in this area and stop up all the loopholes in fuel allocation and supply. And we must also deliver on our promise to link supply of diesel fuel to sales of oil made from grain. Basic-level machinery stations must carry out step by step integrated systems governing fuel supply, administration, use and economy. We must also save fuel in storage, transport, use and other areas and continue to implement effective measures for reducing fuel and electricity consumption. At the same time, we must also vigorously develop new sources of energy and disseminate equipment and technology to exploit wind power, water power, geothermal energy, bioenergy, solar energy and methane. Second, we must conscientiously stress upgrading of agricultural equipment, strengthening of technical supervision and improvement of engine performance maintenance. We must also place emphasis on the study of standards for scrapping internal combustion machinery, adopt measures to restrict use of internal combustion machinery that exceeds prescribed use-life limits and, in principle, refuse to provide fuel for power machinery that seriously exceeds fuel-consumption standards and that is seriously underpowered. We suggest that the state provide appropriate economic incentives for old-equipment replacement and give equipment upgrading priority in loan grants. Third, we must enhance technological transformation through advances in S & T, starting with studies of field operation machinery that simplifies the production process, improve efficiency and reduce energy consumption. We must develop mechanization programs that accord with developing conditions in agriculture, that meet local need and that are in line with biotechnical programs. We must resolve the problem of supplying accessories that are required for the mechanization of cultivation and place special emphasis on the development and dissemination of sowing and harvesting machinery that can alleviate labor shortages in grain production. During the Seventh 5-Year Plan, breakthroughs must be made in the mechanization of paddy field operations. We must aggressively develop new technology and new equipment urgently needed for farm-output diversification and commodity production. We must vigorously disseminate equipment used to process mixed (compound) feed employed in breeding industries, chicken and other small-fowl

and animal feeding equipment, fish raising equipment, sideline products processing equipment, storage and refrigeration equipment, and special equipment needed to transport fresh and live foods. In addition, we must also establish good agricultural mechanization service networks and place special emphasis on the development of mechanization service centers at the rural township and village level. And we must strengthen management of this work and appropriately increase investment in agricultural mechanization.

Question: What are China's prospects for agricultural mechanization?

Answer: Agricultural mechanization is inevitable, and if China is to modernize her agriculture she must carry out a technological transformation thereof, readjust her agricultural output mix and develop commercial production, all of which things create new demand for and new needs concerning mechanization. Given current conditions, agricultural mechanization will show the following trends in the future. In terms of areal distribution, mechanization will first be effected in economically developed areas, in regions in which grain production is concentrated and in the suburbs of large and medium cities and will stimulate development throughout the rest of the nation. In terms of sectors, mechanization of grain cultivation will be key, and mechanization will gradually be expanded into other sectors. Only when cultivation is improved and when machines replace manual labor can we ensure continued stable increases in grain production. Once mechanization of grain production is pretty far advanced, animal husbandry, fishery, storage of fresh goods, storage, processing, transport and other sectors will also begin to be high mechanized. In terms of managerial forms, we will continue to maintain a variety of economic components and many forms of management for a long time to come, and cooperative management will steadily develop. These forms will complement and bring out the best in each other and will contribute to the mechanization of Chinese agriculture.

At the end of the interview, Director Song emphasized that the rapid mechanization of agriculture over the past few years objectively reflects the urgent need, especially in economically developed areas, for mechanization following implementation of the rural production responsibility system. He stressed that we must understand, in terms of long-range strategy, the important position and role of agricultural mechanization. Failure to carry out mechanization diligently and in a step by step fashion will impede improvement in agricultural productive forces and thus retard agricultural modernization. He stated his hope that government agencies at all levels will strengthen their leadership in agricultural mechanization work so as to promote healthy development therein.

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COMMISSION OUTLINES AGRICULTURAL TECHNOLOGY PROJECTS

OW270619 Beijing XINHUA Domestic Service in Chinese 1227 GMT 26 Jul 87

[Article by reporter Wang Yi]

[Text] Chengdu, 26 Jul (XINHUA)--According to a work conference on developing agricultural technology in certain provinces, municipalities, and autonomous regions which concluded here today, the State Economic Commission has decided on a number of key agricultural technology development projects for the next 3 years aimed at promoting scientific and technological advances in rural areas, building up the momentum for agricultural development, and ensuring sustained and stable growth of agriculture.

These key projects are: 1) fine strains of grain and main cash crops and related technology for improving quality and increasing output; 2) fine breeds of livestock, poultry, and fish, and techniques for breeding, propagating, and protecting such breeds; 3) suitable farmland machinery, breeding equipment, and agricultural engineering technology; 4) technology and equipment for processing, storing, transporting, and preserving farm and sideline products; 5) development of famous-brand quality agricultural, forestry, animal husbandry, and fishery products, export-oriented products, and import substitution products; and 6) techniques for fast-growing and high-yield timber, lumber, processing preventing and controlling plant diseases and insect pests, and conserving forest resources.

Ye Qing, vice minister in charge of the State Economic Commission, said that the commission has decided on these key projects based on the progress in implementing the agricultural technology projects included in the 1985-87 state plan for developing major technology, as well as in keeping abreast of the needs in current rural economic development. He said: In developing agricultural technology, it is necessary to actively develop and popularize advance and suitable technology so that the rural economy can move toward specialization, large-scale commodity production, and modernization. Efforts should be concentrated on developing technology comprising several branches of science and serialized techniques in order to achieve optimal results with limited funds and organize large-scale development. It is also necessary to consider the characteristics of China's balanced agricultural production in developing technology at various levels, promoting advanced and suitable techniques, and bringing into play the superiority of traditional techniques.

In order to ensure smooth progress in carrying out these key agricultural technology projects, the State Economic Commission has called for further strengthening and perfecting macro management of agricultural technology development. Currently it is necessary to focus attention on the following four issues: 1) Projects should be handled at different administrative levels, and be selected according to plans for all trades and current production needs. Priority should be given to projects that require small investment but can yield quick results and be applied in a wide range of practical fields. 2) It is necessary to further perfect the contract system for technology development. Consideration may be given to the practice of appraising on the budget for a contracted project on a yearly basis. 3) It is necessary to reform the measures for using technology development funds. 4) It is necessary to strengthen leadership. Economic commissions in all localities should place agricultural technology development on their agenda. They should consider the actual conditions in each locality in arranging the funds for developing technology, including agricultural technology, that the Central Government appropriates for all provinces, municipalities, and autonomous regions.

/9738

CSO: 4006/846

CROP PRODUCTION COST DATA, PROBLEMS ANALYZED

Beijing NONGYE KUAIJI YANJIU in Chinese No 1, 8 Feb 87 pp 27-31

[Article by the Results Section of the Economic Management Station, Ministry of Agriculture, Animal Husbandry and Fishery: "Cost Trends for Nine Crops in 1985"]

[Text] The rural economy expanded greatly in 1985 even though it suffered much natural disaster. According to statistics from the Economic Management Station of the Ministry of Agriculture, Animal Husbandry and Fishery, the rural economy earned a total of 561.4 billion yuan, an increase of 20 percent over 1984, and peasant incomes averaged 339 yuan per capital a rise of 11 percent over 1984. Nevertheless, income from cultivation rose only 2.1 percent, of which grain crop earnings declined by 1.1 percent. There are many reasons for these phenomena; here we shall analyze cost trends for nine crops in 1985 from data assembled from 297 points across the nation.

Since 1979, the Ministry of Agriculture, Animal Husbandry and Fishery has conducted sample tests of the costs of wheat, paddy rice, corn, soy beans, peanuts, cotton, rape and sugar cane and sugar beets. Although the data aggregated from these samples cannot fully represent cost levels throughout the nation, the data can help us analyze rural economic conditions.

I. Longitudinal Analysis

1. The per-mu yields of six crops decreased and rose for three crops.

Changes in Per-Mu Yields for Nine Crops (Jin/Mu)

| Year | <u>Crop</u> | | | | | | | | |
|-------|--------------|-------------|-------------|------------------|----------------|---------------|-------------|-------------------|--------------------|
| | <u>Wheat</u> | <u>Rice</u> | <u>Corn</u> | <u>Soy Beans</u> | <u>Peanuts</u> | <u>Cotton</u> | <u>Rape</u> | <u>Sugar Cane</u> | <u>Sugar Beets</u> |
| 1984 | 444.1 | 809.25 | 582.4 | 176.2 | 290.9 | 119.6 | 177.7 | 9,429.4 | 4,357.1 |
| 1985 | 439.1 | 778.9 | 564.6 | 203.2 | 300.7 | 103.5 | 183.8 | 8,352.9 | 4,101.5 |
| 84/85 | -1.1% | -3.8% | -3% | +15.3% | +3.3% | -13.5% | +3.4% | -11.4% | -5.8% |

2. In terms of material costs per mu, wheat, paddy rice, soy beans, peanuts, rape and sugar cane registered increases, yet the yields of three of these crops--wheat, rice and sugar cane--declined. The three crops that registered lower material costs per mu--corn, cotton and sugar beets, also saw their yields decline proportionately.

Changes in Material Costs Per Mu for Nine Crops (Yuan/Mu)

| <u>Year</u> | <u>Crop</u> | | | | | | | | |
|-------------|--------------|-------------|-------------|------------------|----------------|---------------|-------------|-------------------|--------------------|
| | <u>Wheat</u> | <u>Rice</u> | <u>Corn</u> | <u>Soy Beans</u> | <u>Peanuts</u> | <u>Cotton</u> | <u>Rape</u> | <u>Sugar Cane</u> | <u>Sugar Beets</u> |
| 1984 | 33.31 | 39.65 | 25.63 | 15.80 | 42.82 | 41.77 | 23.53 | 80.61 | 52.79 |
| 1985 | 35.43 | 40.94 | 25.48 | 16.81 | 43.60 | 39.67 | 23.69 | 81.03 | 49.37 |
| 84/85 | +6.4% | +3.3% | -1% | +6.4% | +1.8% | -5% | +0.7% | +0.5% | -6.5% |

The above increases admittedly are not very great. Still, when one takes price increases for the mans of production into account, it is apparent that actual material inputs declined rather than increased.

3. The net incomes per mu of wheat, corn, cotton and sugar beets declined; of these, cotton fell the most, by 34.19 yuan per mu, or 21 percent. The net incomes of rice, soy beans, peanuts, rape and sugar cane increased; of these, soy beans rose the most, by 11.22 yuan per mu, or 27 percent.

Changes in the Net Income Per Mu for Nine Crops (Yuan/Mu)

| <u>Year</u> | <u>Crop</u> | | | | | | | | |
|-------------|--------------|-------------|-------------|------------------|----------------|---------------|-------------|-------------------|--------------------|
| | <u>Wheat</u> | <u>Rice</u> | <u>Corn</u> | <u>Soy Beans</u> | <u>Peanuts</u> | <u>Cotton</u> | <u>Rape</u> | <u>Sugar Cane</u> | <u>Sugar Beets</u> |
| 1984 | 50.66 | 82.58 | 48.78 | 41.27 | 99.35 | 156.83 | 50.50 | 223.22 | 149.31 |
| 1985 | 47.82 | 85.29 | 48.34 | 52.49 | 106.89 | 122.64 | 54.52 | 300.50 | 123.30 |
| 84/85 | -5.6% | +3.3% | -1% | +27.2% | +7.6% | -21% | +8% | +34.6% | -17.4% |

4. The per-mu profits of rice, corn, soy beans, peanuts, rape, sugar cane and sugar beets increased; of these, sugar cane increased the most, by 77.03 yuan per mu, or 58.7 percent. The per-mu profits of wheat and cotton declined; of these, cotton fell the most, by 27.37 yuan per mu, or 28.5 percent.

Changes in Per-Mu Profits for Nine Crops (Yuan/Mu)

| <u>Year</u> | <u>Crop</u> | | | | | | | | |
|-------------|--------------|-------------|-------------|------------------|----------------|---------------|-------------|-------------------|--------------------|
| | <u>Wheat</u> | <u>Rice</u> | <u>Corn</u> | <u>Soy Beans</u> | <u>Peanuts</u> | <u>Cotton</u> | <u>Rape</u> | <u>Sugar Cane</u> | <u>Sugar Beets</u> |
| 1984 | 27.34 | 50.37 | 25.06 | 24.85 | 53.23 | 98.26 | 53.23 | 131.37 | 42.35 |
| 1985 | 25.20 | 53.98 | 25.83 | 36.38 | 68.82 | 70.29 | 68.82 | 208.49 | 60.58 |
| 84/85 | -7.8% | +7.2% | +3% | +46.4% | +29.3% | -28.5% | +29.3% | +58.7% | +43% |

5. In terms of cost per 100 jin of output, paddy rice, wheat, cotton and sugar cane rose, with cotton registering the greatest increase, 9.78 yuan, or 12.4 percent, whereas corn, soy beans, peanuts, rape and sugar beets declined, with sugar beets showing the largest reduction, 0.29 yuan, or 13.6 percent.

Changes in the Costs of Producing 100 Jin of Nine Crops (Yuan/110 Jin)

| Year | <u>Crop</u> | | | | | | | | |
|-------|-------------|-------|------|-----------|---------|--------|--------|------------|-------------|
| | Wheat | Rice | Corn | Soy Beans | Peanuts | Cotton | Rape | Sugar Cane | Sugar Beets |
| 1984 | 12.00 | 8.42 | 7.98 | 16.94 | 29.65 | 78.70 | 34.12 | 1.77 | 2.14 |
| 1985 | 12.43 | 8.71 | 7.89 | 15.44 | 26.46 | 88.48 | 29.73 | 1.98 | 1.85 |
| 84/85 | +3.6% | +3.4% | -1% | -8.8% | -10.7% | +12.4% | -12.9% | +11.9% | -13.6% |

The causes of the above changes in profit margins and costs per 100 jin of output are complex. The change in yields and material costs per mu were relatively small, so the changes in profit margins and costs per 100 jin of output were primarily due to such more active factors as labor inputs per mu and prices for the main product.

Changes in Labor Inputs Per Mu (Unit of Labor/Mu)

| Year | <u>Crop</u> | | | | | | | | |
|-------|-------------|-------|-------|-----------|---------|--------|--------|------------|-------------|
| | Wheat | Rice | Corn | Soy Beans | Peanuts | Cotton | Rape | Sugar Cane | Sugar Beets |
| 1984 | 14.8 | 21.2 | 16.7 | 10.1 | 25.6 | 40.3 | 21.4 | 49.8 | 25.4 |
| 1985 | 13.8 | 19.7 | 14.8 | 9.5 | 21.8 | 35.5 | 17.9 | 48.8 | 18.1 |
| 84/85 | -7.2% | -7.1% | -8.9% | -5.9% | -14.8% | -11.9% | -16.4% | -2% | -28.7% |

With the exception of wheat, whose price remained the same as the previous year, and cotton and sugar beets, whose prices fell, the other six crops increased in price over 1984. Sugar cane registered the greatest increase in price, 40.6 percent over 1984.

Changes in Prices for Nine Crops (Yuan/Jin)

| Year | <u>Crop</u> | | | | | | | | |
|-------|-------------|-------|-------|-----------|---------|--------|-------|------------|-------------|
| | Wheat | Rice | Corn | Soy Beans | Peanuts | Cotton | Rape | Sugar Cane | Sugar Beets |
| 1984 | 0.189 | 0.151 | 0.127 | 0.323 | 0.488 | 1.66 | 0.416 | 0.032 | 0.046 |
| 1985 | 0.189 | 0.162 | 0.131 | 0.341 | 0.500 | 1.56 | 0.427 | 0.045 | 0.042 |
| 84/85 | 0 | +7.3% | 3.1% | +5.6% | +2.3% | -6% | +2.6% | +40.6% | -8.6% |

Changes in net income earned by a given resulted primarily from the overall change in material expenditure per mu for, yield of and price of that crop.

For example, changes in yield caused net income per mu to decline by 0.189 yuan for wheat, 4.58 yuan for rice, 2.26 yuan for corn, 4.78 yuan for peanuts, 26.73 yuan for cotton, 34.45 yuan for sugar cane and 11.76 yuan for sugar beets and to increase by 8.72 yuan for soy beans and 2.54 yuan for rape.

Overall actual changes in procurement and market prices increased net income per mu by 8.56 yuan for rice, 2.26 yuan for corn, 3.66 yuan for soy beans, 0.60 yuan for peanuts, 2.02 yuan for rape and 108.52 yuan for sugar cane and reduced net income per mu by 10.35 yuan for cotton and 16.4 yuan for sugar beets. Changes in profit per mu, on the other hand, stemmed largely from changes in net income and in labor costs. Assuming labor costs to be the national rate, the decline in labor inputs during 1985 increased per-mu profit for wheat by 1.92 yuan, for rice by 2.88 yuan, for corn by 3.65 yuan, for soy beans by 1.25 yuan, for peanuts by 7.30 yuan, for cotton by 9.22 yuan, for rape by 6.92 yuan, for sugar cane by 1.92 yuan and for sugar beets by 14.02 yuan.

II. Cross Analysis

The per-mu costs, net income, labor costs and profits for the nine crops in 1985 are as follows.

Per-Mu Costs, Net Income, Labor Costs and Profits for Nine Crops (Yuan)

| <u>Item</u> | <u>Crop</u> | | | | | | | | |
|-------------|--------------|-------------|-------------|------------------|----------------|---------------|-------------|-------------------|--------------------|
| | <u>Wheat</u> | <u>Rice</u> | <u>Corn</u> | <u>Soy Beans</u> | <u>Peanuts</u> | <u>Cotton</u> | <u>Rape</u> | <u>Sugar Cane</u> | <u>Sugar Beets</u> |
| Costs | | | | | | | | | |
| per mu | 35.43 | 40.94 | 25.48 | 16.81 | 43.60 | 39.37 | 23.69 | 81.03 | 49.37 |
| Net income | | | | | | | | | |
| per mu | 47.82 | 85.29 | 48.34 | 52.49 | 106.89 | 122.64 | 54.52 | 300.5 | 123.30 |
| Labor cost | | | | | | | | | |
| per mu | 17.80 | 25.41 | 19.09 | 12.26 | 28.12 | 45.80 | 23.09 | 62.95 | 23.35 |
| Profit | | | | | | | | | |
| per mu | 25.20 | 53.98 | 25.83 | 36.38 | 68.82 | 70.29 | 18.76 | 208.49 | 60.58 |

If we categorize the nine crops as brain-bean crops, oil-producing crops and other cash crops, we obtain the following results.

Per-Mu Material Costs, Net Income, Labor Costs, and Profits for Three Categories of Crops (Yuan/Mu)

| <u>Crop Category</u> | <u>Item</u> | | | |
|----------------------|-----------------------|-------------------|--------------------|---------------|
| | <u>Material Costs</u> | <u>Net Income</u> | <u>Labor Costs</u> | <u>Profit</u> |
| Grain and Beans | 29.67 | 58.49 | 18.64 | 35.35 |
| Oil Crops | 33.65 | 80.71 | 25.61 | 43.79 |
| Other Cash Crops | 56.69 | 182.15 | 44.03 | 113.12 |

From the above two tables it is apparent that material and labor costs are greater for cash crops than for oil crops and greater for oil crops than for grain and beans. The same is true for net income and profits. The actual benefits peasants obtain from planting these crops differ, however: (1) Cash and oil crops require more labor inputs than do grain and beans, so in most areas, where there is surplus labor, increasing labor inputs will reduce the amount of idle labor, and people thus prefer to grow cash crops rather than grain and beans. (2) In terms of profit per yuan of material expenditure, grain earns 0.19 yuan, oil crops 0.30 yuan and cash crops 1.00 yuan. Thus peasants prefer to make additional investment in cash and oil crops rather than in grain. This preference is readily apparent in the amount of chemical fertilizer applied to each of the nine crop types in 1985. Peasants used the same amount of chemical fertilizer per mu in 1985 as they did in 1985 for wheat, rice and corn but used 23 percent more fertilizer for peanuts and 27 percent more for sugar cane during the same period.

State planning was a major cause of the higher profits for cash crops over oil crops, grain and beans. For the four grain and bean crops, state procurement prices were lower than market prices, equaling on average only 93 percent of the latter. For oil crops, procurement prices on average were on par with market prices. Among cash crops, sugar cane and sugar beets are subject to state planned monopoly and are rarely sold on the market, and cotton, whose production is restricted by the state, is procured at prices 25 percent above market rates. In general, the per-mu net income of cash crops is 2-6 times that of grain.

III. Overall Analysis

Factors differ in their effect on each of the nine crop types, but in general, with the exception of wheat, output volume and price are the major influence on per-mu income.

Factors Affecting Change in Crop Net Income [NI] during 1985

| <u>Item</u> | <u>Crop</u> | | | | | | | | |
|---|--------------|-------------|-------------|----------------------|----------------|---------------|-------------|-----------------------|------------------------|
| | <u>Wheat</u> | <u>Rice</u> | <u>Corn</u> | <u>Soy Beans</u> | <u>Peanuts</u> | <u>Cotton</u> | <u>Rape</u> | <u>Sugar Cane</u> | <u>Sugar Beets</u> |
| Change in NI Per Mu, vs. 1984 | -2.84 | +2.71 | -0.44 | +11.22 | +7.54 | -34.19 | +4.02 | +77.28 | -26.00 |
| Change in NI Caused by Change in Output | -0.189 | -4.58 | -2.26 | +8.72 | +4.78 | -26.73 | +2.54 | -34.45 | -11.76 |

[Table continued on following page.]

Factors Affecting Change in Crop Net Income [NI] during 1985

| Item | <u>Crop</u> | | | | | | | | |
|---|--------------|-------------|-------------|------------------|----------------|---------------|-------------|-------------------|--------------------|
| | <u>Wheat</u> | <u>Rice</u> | <u>Corn</u> | <u>Soy Beans</u> | <u>Peanuts</u> | <u>Cotton</u> | <u>Rape</u> | <u>Sugar Cane</u> | <u>Sugar Beets</u> |
| Change in Ni Caused by Change in Per- Mu Material Expendi- ture | -2.12 | -1.29 | +0.15 | -1.01 | -0.78 | +2.10 | -0.16 | -0.42 | +3.42 |
| Change in Ni Caused by Price Change | 0 | +8.57 | +2.26 | +3.66 | +3.60 | -10.35 | +2.02 | -108.58 | -16.4 |

Thus, in addition to developing secondary and tertiary sectors, three things must be done with respect to cultivation to increase land use rates and peasant incomes: increase yields, raise the prices of agricultural products and readjust the cultivation mix.

China has a planned commodity economy. From cost data it is apparent that, except for a few cash crops, the marketed rate of most of our crops is low, with wheat being only 36.8 percent, rice 36 percent and corn 38.7 percent. In terms of sales, the state procures most of the crops produced--89 percent of all grain and beans, 68 percent of all oil crops and 98.8 percent of all cash crops. The state sets procurement prices, so the cash income peasants receive from sales of agricultural produce is determined by state price levels, and the propriety of the cultivation mix depends on the appropriateness of state-set price parities among crops. Thus price policy is crucial for agricultural development. China is not using price levers flexibly enough. For example, people have long complained that there is overstocking of cotton, which has caused great financial losses. Yet in 1985 procurement prices were 25 percent higher than market rates for that good. This is a major reason why the cotton-sown area has not been reduced. The state also feels that there is insufficient grain, yet procurement prices are 7 percent lower than market rates for that commodity, which problem has made it difficult to enforce grain procurement contracts.

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ECONOMIC DEVELOPMENT OF POOR AREAS

Beijing NONCUN GONGZUO TONGXUN [RURAL WORK NEWSLETTER] in Chinese No 4,
5 Apr 87 pp 10-11

[Editorial by Deng Naigang [6772 0035 0474]: "Issues Surrounding Current Economic Development Efforts in Impoverished Areas"]

[Text] For more than 30 years now, and especially since the 3rd Plenum of the 11th CPC Central Committee, the Party Central Committee and the State Council have been extremely concerned with economic development of the impoverished areas, and they have adopted a series of special policies and preferential measures to help change the face of those areas. These policies and measures have been helpful in developing the economies of the poor areas, and we have achieved certain successes, but overall there still remain many questions regarding ideology and methods which demand further study and resolution. The situation in various areas at present, and the relevant data, can be summarized as follows:

1. Why do we say that helping to develop the poor areas is an important constituent in establishing socialist material and spiritual civilization?

We should understand that in a nation such as ours, with a population of 1 billion, solving the problem left over by history of feeding and clothing some of the peasants, and making them rich to boot, not only is of great economic significance, but is of wide political and social significance as well. In carrying out socialist construction, and in implementing economic and political reform, we must adhere to the four cardinal principles and the policy of vitalization through opening up. The essential goal is to develop the productive forces of society, to have all the people become wealthy together, and to bring prosperity to the whole nation. This is the common ideal of the Chinese people. The reason some areas and some people are allowed, and encouraged, to get rich first is simply to spur on other areas and the masses gradually to become wealthy as well, and further, step by step to turn this poor and backward nation of ours into a prosperous and civilized socialist state exhibiting Chinese characteristics. In addition, many poor areas were long-standing revolutionary base areas which made tremendous contributions and sacrifices for the revolution. During the revolution we depended on them, so we cannot ignore them in construction. Consequently, helping to develop the poor areas must be a major constituent in establishing socialist material and spiritual civilization.

2. What fundamental changes have there been over the past few years in efforts to help the poor?

Over the past several years, and last year in particular, the State Council set up economic development leadership teams for the impoverished areas, further clarified principles and goals, and adjusted policies regarding efforts to aid those areas, based on the sum of more than 30 years' experiences and lessons. The basic principle was to begin with reform, seek to foster growth, thoroughly change the past policy of simply providing relief, and implement a new development approach; namely, to mobilize the strengths of all segments of society, to amass human, material, and financial resources, and to change completely the face of the poor areas within a limited time. These are important and fundamental changes.

3. What is the basic goal of economic development in China's poor areas during the Seventh 5-Year Plan?

During the Seventh 5-Year Plan, the basic goal of economic development in the poor areas is to concentrate on solving the problem of feeding and clothing the vast majority of the masses in those areas, and thus enable the areas to take initial steps toward self-development, and gradually to change their backwardness and make them prosper. We will celebrate the 40th anniversary of the founding of the PRC in 1989, and we hope by that time to have succeeded for the most part in solving the problem of feeding and clothing the vast majority of the masses in the poor areas, and that there will have been further progress in developing other economies. The principal way to achieve this goal is to depend on the hard work and self-reliance of the vast numbers of cadres and masses in the poor areas, to fully arouse the enthusiasm of the millions upon millions of peasants, and to crank up the internal economic vitality of those areas. At the same time, the help and support of every segment of society is required as well.

4. Why do we say that helping to develop the poor areas is the common duty of all of society?

It should be made clear that helping the poor is not simply a matter for the relief agencies; it is the common duty of state organs and every industry. Enabling the poor areas to break out of poverty once and for all and become prosperous will involve many areas, including agriculture, industry, transportation, energy, culture, education, and health. The agriculture, animal husbandry, fishery, and forestry sectors can provide substantial support. However, economic development of the poor areas does not simply mean development of agriculture alone; it also requires full utilization of both surface and underground resources, and expansion of manufacturing industries, township enterprises, and other nonagricultural producing industries. In this regard, the industrial sector can draw on its superior position to provide assistance. In economic development, we principally should work hard to expand the commodity economy, which gives the peasants the opportunity to create and exploit development in many fields. The financial, commercial, and transport sectors must devise ways to help the poor areas to solve their funding, circulation, and transport problems, and create an economic condition

favorable for transforming production from self-sufficiency to a commodity economy. Economic development also must be intimately linked to intellectual development, and such sectors as culture, education, science and technology, and health must make more efforts in this regard. Consequently, helping to develop the poor areas is not a matter for one or two sectors alone, but is the common responsibility of society as a whole.

5. What reforms should there be so the various state relief funds will be adequately managed and utilized?

There must be reform in the way the state utilizes funds for the poor areas. We must thoroughly change from the past approach of simple relief and utilizing funds by sharing them out equally, to managing and using the various relief funds in a more appropriate manner. Although in the past the amount of funds devoted to economic development in the poor areas was substantial, the results were less than ideal because the money was improperly utilized, and the priority areas were not conspicuous. From now on, we must centralize various support funds for use in the poor counties. In using the funds for key projects aimed at feeding and clothing the masses, and economic development, we must do everything possible to open up employment opportunities to increase the income of peasants. We must, of course, guarantee that the funds so amassed will be expended and results increased, and that the enthusiasm of the various sectors will be aroused. Some areas employ an approach where planning is unified and systematic, channels are clear, uses are consistent, centralization is relative, and expenditures are focused.

6. How do we correctly handle problems related to feeding and clothing the masses, and fundamentally cast off our backwardness?

Economic development of the poor areas is a formidable, complex, long-term historical task. It is feasible to concentrate for several years on solving the problem of feeding and clothing the vast majority of the masses, but to fundamentally break out of our backward condition will require an arduous struggle over a long period of time. Developing some "short," "ordinary," "quick" projects in the near term to concentrate on solving the food and clothing problem is the right thing to do. But to bring true prosperity, we also must formulate medium- and long-term development plans, and advance some essential large- and medium-scale key projects. The science and technology, economic, and social development plan for the year 2000 for the poor areas, which the State Planning Commission recently began to draw up, is a major program of fundamental importance for helping to completely change the face of those areas. There are two levels to the program to bring prosperity to the poor: one is the state level, and the other is the local level. The program at the state level, and the other is the local level. The program at the state level must be directed at the poor areas from the national perspective. It must outline overall policies, principles, requirements, and the important measures and countermeasures that need to be employed, which include some relatively large future construction projects for these areas. This program is to play a leading role with respect to the local program. But the actual, specific program to be implemented is the local one. Of course in formulating a program to help the poor to prosper, we still must take into account China's

national situation and national strength, and draw up a plan based on what is both necessary and possible. At the same time, results should be viewed in terms of requirements, with comparisons and selections made accordingly. All the projects that are set up should more effectively promote development of a given area's economy; consequently, we must seriously demonstrate that they are truly feasible, and refrain from indiscriminately drawing up a list divorced from reality.

7. How do we correctly handle the relationship between enriching the people and enriching the counties?

Economic development of the poor areas requires making both the people and the counties rich. But we must understand that enriching the people is the basis of enriching the counties. If there were to be a temporary conflict between the two, we must give precedence to enriching the people. The most pressing task in the poor areas is to solve the problem of feeding and clothing the masses, with a view toward bringing wealth to the tens of thousands of poor households. Only after the masses have prospered can economic development take place at the county level, and only then will it be possible to end financial subsidies. Some people cannot understand the point that, in terms of the connection between enriching the people and enriching the counties, we frequently give a lot of consideration to, and make detailed calculations regarding, the latter, and hastily undertake industrial projects on a grand scale, which requires an exceptionally high degree of enthusiasm for the state. This is an inverted approach, and the experiences and lessons of the past are numerous. At present, the leaders at all levels, and especially at the county level, must plant it firmly in mind to make the people rich first. When formulating development programs, granting support funds, and initiating production projects, they must conscientiously cater to the needs of the thousands upon thousands of households.

8. How do we correctly handle central support and lateral ties?

Central support refers to depending on the government to appropriate funds and materials, and to extend preferential treatment. China is a large country strapped with a poor foundation, limited financial strength, and central support exclusively, so it is difficult for productive forces to materialize. It often happens that we experience poverty and relief year after year. On the other hand, there is great potential in developing lateral ties, bringing in technology, talent, information, management skills, and equipment from outside, and administering things in a comprehensive manner. Problems generally found in poor areas include a lack of technology, talent, information, and management skills, a failure to break down self-isolation, and a failure to introduce advanced technology and management from outside, so self-development stops at the preexisting level. We must educate the cadres and masses in the poor areas to thoroughly eliminate the dependent mentality expressed as "anyway the Communist Party will not let people starve to death," and the attitude of complacency expressed as "things are already much better than in the old society." We must change the backward thinking formed over the long term which closes the country to international intercourse, embraces self-sufficiency, and emphasizes agriculture over commerce, and establish the concept of developing a commodity economy. Of course in cultivating lateral

ties, we must both encourage the spirit of relieving poverty, and practice the principle of reciprocity. We must integrate development of the poor areas with expansion in the areas already developed, so they can help each other advance, and grow together.

9. Is it better for the poor areas to sell raw materials or to produce finished goods?

The poor areas often abound in natural resources, lack funds and technology, and have a weak industrial base. How do they base themselves on the local resources, work for the long term rather than the short term, and make commodities more important than natural resources? This requires a head for a commercial economy; for goods to sell and for results to be high, we must put on the market whatever is in demand, and whatever brings a high price. Therefore, insisting on finish processing as in the past is inadvisable. Some areas, while not having adequately solved their market and technology problems, hastily engage in processing, with the result that the products cannot be marketed. This overcommits funds and wastes resources, so not only is it impossible for them to prosper quickly, on the contrary they take on an even weightier burden. We must draw a lesson from this. If selling raw materials is more profitable than selling manufactured goods, or if they sell better, why not do so? Some people are afraid of suffering losses, and it is said they fear a change to some type of "colonial economy." This is a narrow, conservative bias. The poor areas should, at the present stage, opt for the long term over the short term, devote major efforts to developing various reputable, superior-grade, specialty-product bases, and succeed through high-quality, large-scale batch production, and substantial output. We should go from simple to complex processing, from preliminary to finish processing, proceed in an orderly way and gradually, and compete in the market with low-cost, inexpensive, commercially sound products.

10. Why is it said that providing work as a form of relief is a good approach to helping the poor prosper?

In order to help change the face of the poor areas as quickly as possible, the state decided, for 3 years starting from the end of 1984, to draw on stocks of grain, cotton, and cloth, and employ the method of providing work as a form of relief, to help the poor areas construct roads and water conservancy projects. This was an important step by the party and the state to assist the poor, and was very well received by the masses. Over the past 2 years, road construction and water conservancy projects under the program of providing work as a form of relief have been a great success, and the consequent economic and social results have been truly outstanding. More important, the masses themselves in the poor areas have been turned on by the work program, and they have been more energetic, with the support of the state, about relying on their own strength to shed their poverty and become prosperous. Providing work as a form of relief is a good method of helping the poor become rich. It is a fundamental departure from the past approach of mainly relying on the state alone for relief, and has provided useful experience for launching intensive efforts to assist the poor.

12513/9835
CSO: 4006/662

NORTHEAST CHINA PLAN ON GRASSLAND DEVELOPMENT

SK310930 Shenyang DONGBEI JINGJI BOA in Chinese No 167, 14 Jul 87 p 2

[Undated "Tentative Plan" drawn up by the Agricultural Group of the Northeast Economic Planning Office: "Build Grasslands and Bring the 'Three Changes' Under Control to Develop Pastures and Animal Husbandry"]

[Excerpts] Grasslands with the fine quality grass in the western areas of northeast China are vast and also are noted at home and abroad. They comprise three of the largest grasslands throughout the country, which are the Hulun Buir grassland, the Songnen grassland, and the Horqin grassland, as well as part of the Xilin Gol grassland. The total acreage of these grasslands is around 400 million mu and they account for 90 percent of the total grassland acreage of the northeast economic zone and for one-fifth of the total land acreage of the zone.

The formation of these grasslands in the western areas is due to the semi-moist and dry temperature of China's temperate zone, and also is the basis of the natural vegetation. They have the landscape of forests; are rich in wild animals, plants, and other natural reserves; are multiple in category and with fine quality and high output of grass; are rare, find natural grasslands in the country; and particularly are rare grasslands in the country on which there exist a large acreage of meadows with vegetation of high economic value and suitable to sheep herds, and where such meadows are relatively concentrated. The Hulun Bui grassland is best known as a virgin meadow in the world.

At present, these grasslands in the western areas have become one of the important livestock bases in the country and have provided an irreplaceable and naturally green ecological defense for the western areas of northeast China. These grasslands are very important in our strategic position because the population of minority nationalities is relatively concentrated on them and they are connected with the Soviet Baykal grassland and the Monggol grassland.

Therefore, it is of great significance for us to accelerate the pace of developing the grassland reserve in the western areas of northeast China and of building more meadows on them, to upgrade the productive strength of grasslands to achieve a benign cycle in their ecological systems.

Over the past few years the western areas have achieved development in building meadows and scored achievements. However, the "three changes" of the grasslands (some have become sandy and alkali land and some have deteriorated) are still growing worse. According to investigation data, the Horqin grassland has an annual rate of 3.7 percent in turning its land into sandy soil. The acreage of its sandy land has reached 50 percent, and that of sandy land in some meadows on the grassland has reached 70 percent. The 20-percent meadows in the Chifeng City grassland have become sand dunes. The Songnen grassland has a yearly average rate of 15 percent in changing its land into alkali soil. The acreage of its alkali land has reached one-third. Of the acreage, the seriously alkalized land accounts for nearly 30 percent. The Hulun Buir grassland, noted for its fertile soil, also has increasingly deteriorated. The acreage of its deteriorated land has reached 12.4 percent.

The entire grassland in the western areas has experienced a large-scale decrease in its grass output because of the development of the "three changes" of meadows, such as the Songnen grassland, which has reduced its per-mu yield of dry grass from 150 kilograms to 50 kilograms. The ecological environment of many grasslands has become worse, the number of meadows that lack water sources has increased, the acreage of land that has been damaged by rats and worms has increased, and earth erosion has become serious. Under the influence of these problems, the production of some farmlands and the construction of railway transportation and industrial bases have been threatened in varying degrees. Moreover, the sandy land on these grasslands has expanded to the marketable grain bases in the middle areas of northeast China, causing increasing harm to these areas.

In addition to the natural factors that have caused the "three changes" of grasslands in the western areas, what merits our attention is the influence of the following man-made factors: First, the people have committed the erroneous idea of "raising animals by depending on heaven", excessively used the land of meadows, which must alternately lay fallow; and have paid no attention to construction and protection. According to the investigation data compiled by 24 semi-agriculture and semi-animal husbandry counties of Heilongjiang and Liaoning Provinces, the capacity of the grasslands for herding has surpassed the fixed volume by more than 55 percent. The acreage of grassland deterioration in Jilin Province has surpassed that of grassland construction by 100 percent. Second, some semi-agriculture and semi-animal husbandry zones have not been adequate in adopting their farming systems, lacked overall plans, and have reclaimed grassland arbitrarily, causing an increasing reduction of meadow acreage, excessive herding, and the "three changes." Third, the infrastructure cannot meet the current need, grassland management has been backward, "herding has been conducted from place to place in search of water and grass," and grassland utilization has not been even. On the contrary, some grasslands that have better conditions have become critical barren land.

The problems concerning grasslands in the western areas of northeast China is like the crisis of forest reserves in the eastern areas. If we fail to adopt effective measures, these grasslands will similarly incur the crisis of extermination. After 20 to 30 years, if we let the Horqin grassland conditions

continue unchecked, the area will become sandy land like a desert caused by negligence. It is estimated that the Songnen and Hulun Buir grasslands will also be totally destroyed and disappear after 100 years. What is worth mentioning is that problems concerning the grasslands still is the "forgotten angle" among the people at present, to which the people have not attached sufficient importance. The consequences caused by the slow grasping of this problem and the failure in effectively grasping it will not only affect the development of animal husbandry in these areas but also the entire national economy, and not only the western areas themselves but also the middle areas of northeast China. We should regard the task in this regard as major work in developing agriculture in northeast China, put the task on the work schedule of leading personnel at all levels, and should do a good job in grasping the task in a down-to-earth manner.

Grasslands are renewable natural reserves. Although the current state of grasslands in the western areas of northeast China is very serious, many favorable conditions exist for consolidating them, and it is not difficult for us to restore them. According to the experience gained by various localities in practice, in consolidating and developing the grasslands in the western areas, we should foster the strategic idea of taking grass planting as a major undertaking, improving soil by planting grass, and bringing the "three changes" under control; and of taking animal husbandry as a major task and developing a diversified economy. This means regarding the enhancement of building ecological systems on the grasslands as a central task; to integrate grassland construction with valley consolidation and the development of animal husbandry, forestry, and agriculture; to protect, consolidate, and reasonably develop and utilize the natural reserves in a planned and organized manner in order to gradually build these reserves into a socialist economic structure with multiple socialized, specialized, and commercialized sectors as well as with the main task of grass planting and animal husbandry. Suggestions raised for dealing with the problems are as follows:

1. Both the state and localities should resolutely regard the undertakings of grass planting and animal husbandry as a main sector of the national economy for the grasslands of western areas; regard the sector as a basis in drawing up plans for reasonably developing and utilizing the grasslands; define the land proportions for agriculture, forestry, and animal husbandry production; and should gradually implement the land proportion among the grassroots-level units.
2. Grassland construction should be based on current needs and far-reaching purposes. By taking the target of establishing the ecological undertaking of grass planting and animal husbandry and of upgrading the productive force on the grasslands, efforts should be made to simultaneously push forward the tasks of protecting and utilizing the natural meadows and of building manmade and semi-manmade meadows.
3. In building grasslands, we should adopt the same measures of building forestry areas and in carrying out investment in the national economy, and should ensure necessary investment and material supplies in this regard.

4. Efforts should be made to readjust and perfect the relevant policies on the economy.

5. In order to meet the need of consolidating and developing the grasslands in the western areas, departments and localities concerned should reinforce and strengthen the specialized organs in charge of grassland management and the grassland institutes.

6. We suggest that the state should put the project of consolidating the grasslands in the western areas of northeast China on its agenda of national land consolidation and regard the study on the plan for consolidating and developing these grasslands as an item in the study of plans for national land consolidation, because the grassland construction of western areas is a systematic project which involves many localities and departments and the production foundation in these areas is very weak.

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CSO: 4006/846

JINGJI CANKAO URGES CONSERVING FARMLANDS

HK231507 Beijing JINGJI CANKAO in Chinese 2 Jul 87 p 1

[Forum: "It Is Necessary To Really Strengthen Land Management"]

[Text] It is necessary to really strengthen land management. Land is the fundamental means of production by which the people of our country live. The population is increasing by some 10 million each year while the area of farmland is shrinking at an annual rate of nearly 10 million mu. This is a fairly important problem of our country. When the population increases, grain is needed and when the structure of consumer demand and the people's livelihood improve, grain is also needed. It is impossible to completely rely on raising the pre-mu yield to solve the problem of satisfying the continuously increasing need for grain in the foreseeable future, particularly in the immediate future. It is, therefore, a pressing matter to treasure and protect the existing farmland and to vigorously reclaim new farmland. We must vigorously develop scientific farming and refrain from excessively reducing the area of farmland. We must not neglect either of these things.

There are now two problems which warrant our attention:

1. It is essential to strictly restrict the excessive occupation of land by township and town enterprises and village-run industrial enterprises. We must apply strict policies and measures to strengthen management. Some township and town enterprises and village-run industrial enterprises reserve land in advance for development for a number of years in the future. It is imperative to levy more taxes on the land reserved in advance. Moreover, when rural areas build houses, they must work out good plans and economize on the use of land. We must advocate that houses be built on the sites of original houses. No new houses shall be built while old houses remain standing. Houses must be built on low-yield land, hillside fields, and uncultivated land as far as possible, leaving good farmland unoccupied.

2. It is necessary to suitably control the work of setting up economic forests on farmland. We must also implement the policy of "never relaxing grain production but vigorously developing diversification." Under the premise of guaranteeing a steady increase in grain, we must vigorously develop industrial crops. Economic forests must develop in places suitable for forests and fruit trees must be planted on mountains. They must not occupy or must occupy as little grain as possible. We can hardly imagine the consequences if the

practice of planting fruit trees on large plots of grain land is established. Regarding this problem, we must not stress the short-term and immediate interests but rather long-term interests and social economic results. In judging this matter, we must not only lay general stress on grain but also on taking specific measures.

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CSO: 4006/846

ANHUI INCREASES FARM PRICES

Hefei ANHUI RIBAO in Chinese 3 May 87 p 1

[Article: "Spread the Good News to the Peasants; Purchase Prices for Some Agricultural Products in Anhui Province To Move Higher"]

[Text] In line with the spirit of relevant documents of the State Council General Office, Anhui Province recently decided to appropriately readjust the purchase prices of some agricultural products in order to increase peasant income and enhance our staying power to develop agriculture.

--The contract purchase price of long-grained nonglutinous rice is being raised 3 yuan per 100 kg, from 31.40 yuan to 34.40 yuan; round-grained nonglutinous rice is being raised 3.50 yuan per 100 kg, from 37.80 yuan to 41.30 yuan; and the price of glutinous rice is being raised an amount corresponding to that of round-grained nonglutinous rice. The province has decided, moreover, to add on an 8-percent quality price difference for four types of superior rice.

--The contract purchase price of shelled peanuts (and oil) is being raised from an "inverse 4:6" ratio to the above-quota added price. The price of shelled peanuts goes from 124.80 yuan per 100 kg to 144 yuan, and peanut oil goes from 149.50 yuan to 172.50 yuan. The price of cottonseed (and cottonseed oil) is being raised from a "straight 4:6" ratio to the above-quota price; cottonseed goes from 12 yuan per 100 kg to 15 yuan, and crude cottonseed oil is being raised from 86.40 yuan to 108 yuan.

After the above-mentioned grain and oil purchase prices are raised, the sales prices for supplies of grain and oil quotas ordered by the cities and towns will not fluctuate.

--The purchase price of cotton goes from the "inverse 4:6" ratio north of the Huaizhe, and from the "straight 4:6" ratio south of the river, to an "inverse 3:7" price ratio. That is, standard cotton lint goes from 172.04 yuan north of the Huaizhe, and from 163.30 yuan south of it, to 176.42 yuan in both cases.

--Quality price differences for flue-cured tobacco will be further increased. Prices for superior- and medium-quality tobacco will be appropriately raised,

and prices for lower- and bottom-quality tobacco will be dropped, within reason. Overall purchase price levels will be raised 3.98 percent.

--For hog orders, beginning the second half of the year, in addition to providing 35 kg of feed grain and 20 kg of high-quality chemical fertilizer per hog in accordance with the price ratio, the purchase guiding price will be increased 0.1 yuan per kg above last year.

12513/9835

CSO: 4006/666

FUJIAN PORK SUPPLY REPORTED GOOD, EXPECTED TO TIGHTEN

Beijing NONGMIN BAO in Chinese 9 May 87 p 1

[Article: "The Fujian Pork Market: Supply Looks Good for the First Half of This Year but Will Tighten during the Second Half"]

[Text] According to projection made by the Fujian Department of Commerce, 6.10 million pigs will be marketed in the province this year, a decline of 60,000 head, or 1 percent, over last year, but production and marketing levels will equal last year's. This year's favorable factors are as follows. First, sow and hog stocks steadily rose at the end of last year, so it appears that pork supply during the first half of this year will improve over the same period last year. Second, relevant departments adopted effective measures to improve management of pig production and marketing so that the interests of pig raisers are ensured. This year, Fuzhou signed contracts to purchase 100,000 live pigs and provided raisers with 6.20 million yuan in subsidies, including 5.40 million yuan for feed and 0.80 million yuan in discount loans and piglet grants, thereby mobilizing the initiative of pig raisers. Third, commodity pig bases will market nearly 250,000 pigs this year, a rise of 47.3 percent over last year, thus expanding local supply sourcing and improving self-sufficiency. Fourth, there has been a shift in consumption of staple foods; pork is gradually becoming less important in consumer diets, being replaced by seafood, vegetables and other foods; and thus pork consumption will not increase sharply, so the relationship between pork supply and demand should remain stable.

Of course, there are also some unfavorable factors: Feed prices have increased, and the ratio between pig and grain prices is irrational, so pig raisers' enthusiasm has declined, and thus supply will tighten during the second half of this year. Pig output has declined in other provinces, so external supply is tightening, which will reduce in-shipments of live pigs.

12431/9835

CSO: 4006/665

GUANGDONG REPORTS IMPROVED EARLY RICE HARVEST

HK260523 Guangzhou Guangdong Provincial Service in Mandarin 0300 GMT 26 Jul 87

[Text] Guangdong has basically completed the reaping of its early rice crop. Total output is estimated to show an increase of 350 million kg over last year. By 21 July, the province had reaped 21 million my of early rice, 86 percent of the area to be harvested. Hainan, Foshan, Zhanjiang, and Jiangmen had completed the harvest. Meixian, Zhaoqing, Maoming, Zhuhai, and Shenzhen had completed 90 percent of the task.

Guangdong suffered serious spring drought this year, and some places were also hit by hailstorms, tornados, and torrential rainstorms. However this year the province popularized high-yield rice strains and applied large amounts of potassium and compound fertilizer, which strengthened the ability of the crop to resist natural disasters. The work of preventing and dealing with plant diseases and insect pests was also stepped up in the final stage of crop growth.

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CSO: 4006/846

GUANGXI LEADER ON RURAL COMMODITY ECONOMY

HK271310 Nanning Guangxi Regional Service in Mandarin 1030 GMT 21 Jul 87

[Excerpts] Since the 3d Plenary Session of the 11th CPC Central Committee, our region's extensive rural areas have carried out a series of reforms and achieved quick development of rural commodity economy. In 1986, the gross value of social products produced by the whole region's rural areas totaled 15.8 billion yuan, an increase of 53.2 percent as compared with 1978. The commodity rate of the whole region's agricultural and sideline products has reached 51.5 percent.

Guangxi peasants' per capita net income in 1986 reached 316 yuan, an increase of 170 percent as compared with 1978.

To further promote our autonomous region's rural commodity economy, a regional conference to exchange experiences in deepening reform and developing rural commodity economy was held from 14 to 19 July in Yulin Prefecture. Attending the conference were leading comrades Wei Chunshu, Hou Depeng, (He Youjia), Wang Zhuguang, Lin Kewu, Cheng Kejie, (Zhao Weicheng), and (Bi Kezhou).

During the conference, Wei Chunshe, chairman of the autonomous regional people's government, summed up our region's achievements in developing rural commodity economy.

Chairman Wei Chunshu added: The progress of the development of commodity economy is closely connected with the level of ideological understanding. Therefore, we must continue getting rid of traditional force of habit and eliminating leftist influence, achieve correct understanding of commodity economy, and foster confidence in developing our rural commodity economy.

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CSO: 4006/846

GUIZHOU REPORTS ON SUCCESS OF RURAL REFORMS

HK270217 Guiyang Guizhou Provincial Service in Mandarin 2200 GMT 26 Jul 87

[Excerpts] Rural economic structural reforms in Guizhou have yielded gratifying economic and social results after 7 years of practice. Average distribution level per capita in 1979 was only 46.4 yuan. In July 1980, the province instituted the contracted responsibility system based on the household with payment linked to output, giving the peasants decision-making powers in production and stimulating their enthusiasm. The province's agricultural output value in 1985 was a record 7.74 billion yuan. Despite severe natural disasters last year, output value showed a further rise of 8.64 percent, and grain output was 6,693,900 tons. Output of rapeseed and tobacco showed big increases. Average distribution per peasant was 302.67 yuan.

During the sixth 5-year plan, some 1.5 million rural laborers participated in industry, commerce, or specialized production items. Last year the output value of the province's forestry, animal husbandry, sideline occupations, and fisheries accounted for 44.2 percent of its total agricultural output value.

However, the growth of agricultural production development in the province has slowed down since entering the second stage of reforms. Neglect of grain production has emerged in some places. It is essential to take effective measures to resolve the existing problems by deepening the second state of rural reforms, to enable the province's rural economy to develop healthily.

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CSO: 4006/846

HUNAN LEADER URGES BOOSTING LATE RICE OUTPUT

HK270157 Changsha Hunan Provincial Service in Mandarin 0000 GMT 27 Jul 87

[Text] While inspecting work in Nanxian County yesterday, Mao Zhiyong and other party and government leaders of the province stressed that the leaders at all levels throughout the province must view the grain production issue from the plane of strategy. They must do everything possible to increase the late rice area and improve yields and strive to fulfill the province's grain production target of 26.8 billion kg for the year.

The Dongting Lake area is Hunan's major grain production base. While checking on antiflood work, Mao Zhiyong, Sun Wensheng, and Yang Huiquan made a point of finding out the grain production situation in the area this year. When a responsible comrade of the Nanxian county party committee told them that due to extensive cultivation of ramie, the sown area of early rice was 60,000 mu down on last year and the total output 30 million kg down, Comrade Mao Zhiyong said earnestly to the leaders of Yiyang Prefecture that this problem must arouse a high degree of attention. The whole province must take a strategic view of the grain production question.

In view of the effect on early rice production in some parts of the province caused by abnormal weather this year, Mao Zhiyong pointed out that the key to attaining the grain production target for the whole year lies in working very hard at the late rice crop. He therefore gave the following views on this topic:

1. Strive to expand the sown area of late rice. All places where the conditions are suitable must cultivate late rice.
2. It is necessary to do a timely job in field management and ensure high yields from the expanded sown area. It is essential to launch the masses to collect domestic manure and strive to increase soil fertility. Special attention must be paid to manuring medium and low-yielding land.
3. The leaders at all levels must concentrate efforts on working hard throughout August to firm up all the measures for increasing late rice production. They should strive to improve yields and work hard to attain this year's grain production target.

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CSO: 4006/846

NEI MONGGOL SETS UP LIVESTOCK COMMODITY BASES, SERVICE CENTERS

Hohhot NEI MONGGOL RIBAO in Chinese 11 Mar 87 p 1

[Unattributed article: "Autonomous Region Livestock Bureau Line of Attack Centers on Concrete, Practical, Effective Keypoints; This Year We Will Set Up Throughout the Region a Group of Natural Disaster Prevention Bases, and Livestock Commodity Bases; and We Will Set Up and Improve a Group of Basic-Level Comprehensive Technical Service Centers"]

[Text] In order to give concrete expression to the development strategy of "attending to plant management, and promoting the livestock industry," this year Nei Monggol Autonomous Region, with the support of relevant national-level departments, will set up 18 livestock industry natural disaster prevention bases, 10 livestock commodity bases, and 4 fine-haired goat and beef cattle export bases. Furthermore, it will adopt typical methods for leading the way, and set up in the various league cities, banners, and counties a group of basic-level sumu (and township and town) comprehensive livestock technical service centers, to enhance services for promoting grass and livestock.

This year is the first year of implementing in the autonomous region the strategic policy decision of "attending to plant management, and promoting the livestock industry." What is the best way to proceed and realize results? Focusing on this line of attack, the autonomous region's livestock bureau has made serious preparations, and has determined that we must set about completing the following projects.

1. Set Up Livestock Natural Disaster Prevention Bases

We must adopt an approach where the state, the collectives, and the peasant herdsmen raise funds together, and concentrate labor, material, and financial resources. This year in the 30-odd banners and counties throughout the region, which are frequently visited by natural disasters, the first group of bases set up will include 18 banners, such as Xin Barag Left Banner. The other banner and county natural disaster prevention bases will be set up beginning next year, and within 3 years all of them will be set up, checked, and accepted. The state will invest 3 million yuan annually in setting up the disaster prevention bases, the autonomous region will invest 5 million yuan, and the remainder will be raised by the banners and counties themselves that are setting up the disaster prevention bases. In utilizing the funds, we

should adopt such approaches as compensation, partial compensation, and loan discounts. The reason for setting up the disaster prevention bases is to fundamentally dispel the fragile nature of livestock production in these areas, and to enable them to resist the somewhat severe natural disasters through self-reliance, so there will be steady development of the livestock industry.

2. Set Up Livestock Industry Commodity Bases

In order to speed up livestock commodity production throughout the region, this year there will be an additional 2.4 million yuan state investment, and a matching 2.4 million yuan investment by the autonomous region and the leagues and banners, to set up in the region a group of commodity bases for fine-wool sheep, semi-fine-wool sheep, and beef cattle. These bases include Otog Front Banner, Shangdu County, Huade County, Taibus Banner, Duolon County, Ar Horqin Banner, Darhan Muminggan Joint Banner, Qahar Right Wing Rear Banner, Horqin Left Wing Middle Banner, and Horqin Right Wing Middle Banner. In addition, the decision of the state export leading group is that this year the autonomous region will set up fine-haired goat export bases in Otog Banner, Urad Middle Banner, and Alxa Left Banner, and it will set up a beef export base in Horqin Left Wing Rear Banner; in all, the state will invest 1.7 million yuan, and the leagues and banners will invest a matching 1.7 million yuan.

Establishing these bases will allow us to gain experience as quickly as possible, and to advance livestock commodity production throughout the region.

3. Enhance Services To Promote Grass and Livestock

Devoting major efforts to popularize and to establish in the various league cities, banners, and counties basic level sumu (and township and town) comprehensive technical service centers is another important measure in this year's region wide livestock work. The autonomous region has decided to specially earmark 2 million yuan in funds to support construction of the basic-level centers. The comprehensive service centers must, through the technical contract system and the insurance responsibility system, provide for the vast numbers of peasant herdsmen single-item, multiple-item, or comprehensive serialized services for livestock, veterinary, and grassland improvement, administration and management, and livestock product circulation. This will promote development of a livestock commodity economy.

A regionwide conference of livestock bureau office heads was held recently. At this conference, after conducting special studies and drawing up plans regarding the foregoing issues, the office heads presented this year's livestock industry targets for the autonomous region: the livestock industry gross output value must reach 1.65 billion yuan, a 1.99-percent increase over last year; gross output of meat must amount to 390 million kg, a 3.3-percent increase over last year; and all the various livestock production indices must show large increases over the previous year.

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SHANDONG PEANUT ACREAGE DECREASES

Beijing JINGJI RIBAO in Chinese 5 May 87 p 2

[Article: "Continued Reduction in Shandong Peanut Acreage Warrants Serious Attention"]

[Text] For Shandong Province, one of the nation's key peanut production and export provinces, acreage devoted to growing peanuts has decreased each of the last 2 years. In 1986, the area planted to peanuts decreased 1,031,000 mu from the previous year, and acreage and gross output only amounted to 85 and 78.7 percent of planned acreage and output, respectively. This year, according to data from the relevant departments on sample surveys of the province's 42 counties, peanut acreage was further reduced in excess of 800,000 mu from the preceding year, so it will be difficult to fulfill this year's provincewide quota of 52 million dan in gross output.

The peanut traditionally is a dominant product of Shandong; the province holds a decisive position in terms of acreage, output, amount of peanut oil given to the state, and quantity exported. The internal restructuring of the planting industry in recent years has caused fairly large fluctuations in Shandong peanut growing. There was a large decrease in peanut acreage in 1984, and gross peanut output amounted to only 36 million dan. Peanut acreage increased in 1985, and gross output increased abruptly to 52.42 million dan. In 1986, peanut acreage decreased again, and gross output dropped to 40.9 million dan. People in the relevant departments in Shandong Province anxiously say that during the Seventh 5-Year Plan, the planned area for growing peanuts in Shandong is 15 million mu, with an annual output of 52 million dan; if a scientific ratio is not determined within the planting industry, and if we do not make overall plans and take all factors into consideration, or ensure superiority, or develop in a rational manner, not only will it be difficult to fulfill the Seventh 5-Year Plan as regards Shandong peanuts, development of the national economy and improvement of the standard of living will be affected as well.

The peanut purchase price is somewhat low, which also is a major factor affecting peasant enthusiasm for growing them. The state has successively raised the purchase price of grain and cotton in recent years, which has made the problem of low peanut prices even more pronounced. Estimates based on 1986 state purchase prices for peanuts show that in normal harvest years

the income from growing peanuts is 30 to 100 yuan less per mu than for growing corn (interplanted with wheat), cotton, or sweet potatoes. This year the state appropriately revised peanut purchasing methods, and raised the purchase price, in order to create conditions which encourage peanut growing, but as far as the peasants in the producing areas are concerned, after transfers to the state, prices remain lower than transaction prices at agricultural trade markets. How to properly apply the price lever, and motivate the peasants to grow peanuts, remain as problems warranting serious attention and study.

Serious drought, and insufficient supplies or untimely delivery of such agricultural-use goods and materials as plastic covering, pesticides, and chemical fertilizers, also are important reasons why peanut acreage has decreased. At the beginning of this year, the relevant departments in Shandong Province worked very hard to stabilize peanut acreage, and did all they could to restore greater peanut output. But since the beginning of spring the drought situation has been as severe as before, many cropland water conservancy facilities have aged and fallen into disrepair, and there are serious shortages of surface and underground water, so we have less ability to withstand natural disasters. In addition, there still are severe shortages of plastic covering, pesticides, and chemical fertilizers for farm use. It is just now the peanut planting season, and we hope the concerned departments will adopt forceful measures, stabilize peanut acreage, and encourage the peasants to produce more and better peanuts for the country.

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NORTHWEST REGION

REGIONAL

BRIEFS

XINJIANG SOCIALIST ACADEMY ESTABLISHED--The Xinjiang Socialist Academy was formally established on 17 June. Its main mission is to adapt to the requirements of united front work in the new period and organize the study of Marxism-Leninism for comrades outside of the party; to train cadres for united front work; to conduct research in united front theory; and to maintain close liaison with non-party comrades, promote cooperation, and develop united front work. Its honorary president is Xinjiang AR CPPCC Deputy Chairman Fu Wen. [Excerpts] [Urumqi XINJIANG RIBAO in Chinese 18 Jun 87 p 1]

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