

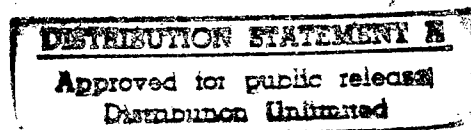
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19 July 1984

China Report

ECONOMIC AFFAIRS



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19 July 1984

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICY AND ISSUES

- Wu Faxu on Efficient Use of Capital
(Wu Faxu; JINGJI YANJIU, No 4, 20 Apr 84) 1

PROVINCIAL AFFAIRS

- Flourishing Individual Industrial, Commercial Enterprises
(Li Xianshan; HUNAN JINGJI XINXIBAO, 25 Apr 84) 7

ECONOMIC DEVELOPMENT ZONES

- SHIJIE JINGJI DAOBAO on Opening Qinhuangdao to World
(SHIJIE JINGJI DAOBAO, 4 Jun 84) 9
- Zhejiang's Ningbo City Opens to Outside World
(Zhejiang Provincial Service, 16 Jun 84) 11
- Briefs
Sino-U.S. Joint Venture 12

ECONOMIC PLANNING

- Suggestions for Overall Development Strategy
(Ma Hong; JINGJI WENTI, No 1, 25 Jan 84) 13
- Issue of Ensuring Funds for Key Projects Reviewed
(Hou Xiaozhong; JINGJI WENTI, No 1, 25 Jan 84) 27
- Tailor Light Industry to Market Changes: Minister Yang Bo
(Zou Xiaoping; JINGJIXUE ZHOUBAO, 12 Mar 84) 34
- Journal Discusses Choice of Planning System
(Shen Liren; JINGJI YANJIU, No 5, 20 May 84) 38

Roles of Planning, Market Regulation Discussed (Gui Shiyong; JINGJI YANJIU, No 5, 20 May 84)	49
AGGREGATE ECONOMIC DATA	
Jiangsu Governor Gu Xiulian Stresses Economic Results (Miao Zuxing; JINGJIXUE ZHOUBAO, 12 Mar 84)	62
ECONOMIC MANAGEMENT	
Shanghai Stresses Simultaneous Revenue, Production Increases (Cai Minglin; JINGJIXUE ZHOUBAO, 5 Mar 84)	64
Xue Muquiao: Objective Economic Law in Economy Management (JINGJIXUE ZHOUBAO, 5 Mar 84)	66
FINANCE AND BANKING	
Rural Commercial Credit Promoted (ZHONGGUO JINRONG, No 4, 4 Apr 84)	69
Agricultural Loans for First Quarter (Zhang Huaixin; NINGXIA RIBAO, 23 Apr 84)	73
Big Increase in State Revenue From Ningxia (Yu Chunqun; NINGXIA RIBAO, 26 Apr 84)	74
Briefs	
Closer PRC Banking Contacts	75
Shaanxi Revenue Increases	75
International Finance Symposium Opens	75
World Bank Delegation in Shandong	76
MINERAL RESOURCES	
Briefs	
Shandong Gold Production	77
INDUSTRY	
Briefs	
Plant Engineers Training Center	78
CONSTRUCTION	
Measures for Solving Rising Construction Costs Explored (Zhong Yan; CAI ZHENG, No 45, 8 Apr 84)	79
Shandong's Key Construction Projects (Zhang Huaqing; DAZHONG RIBAO, 20 Apr 84)	85

DOMESTIC TRADE

Measures To Improve Commercial Unit Economic Results Discussed (SHANGYE KUAIJI; No 4, 10 Apr 84)	87
Poor Commodity Circulation in Rural Areas Explained (Yuan Ruiqi; YUNNAN RIBAO, 20 Apr 84)	94
Trade Centers for Agricultural and Sideline Products (HUNAN JINGJI XINXIBAO, 25 Apr 84)	98

FOREIGN TRADE AND INVESTMENT

Strengthening Central Management To Develop Foreign Trade (GUOJI MAOYI, No 3, Mar 84)	100
Deputy Mayor's Report on Foreign Trade (Li Lanqing; TIANJIN RIBAO, 6 Apr 84)	107
Hainan, Foreign Firms Sign Agreements on Joint Ventures (Hainan Island Service, 14 Jun 84)	110
Briefs	
Angolan Trade Minister Visits	111
Guangdong Exhibition in Jordan	111
Henan, Kansas Sign Agreements	111
Tourist Product Sales	112

SPECIAL ECONOMIC ZONES

Zhuhai City Steps Up Special Economic Zone Construction (Guangdong Provincial Service, 14 Jun 84)	113
Briefs	
Shantou Special Zone Imports Capital	115
Japanese Color Television Venture	115

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

Journal on Long Term Trend of Soviet Economy (Luo Zhaohong; SHIJIE JINGJI, No 4, 10 Apr 84)	116
JINGJI RIBAO on Hungary's Enterprise Management (Chen Xueyan; JINGJI RIBAO, 13 Jun 84)	126

HONG KONG MEDIA ON CHINA

WEN WEI PO on Duty-Free Imports to 14 PRC Cities (Lan Jing; WEN WEI PO, 14 Jun 83)	133
Heilongjiang Opening Up Through Hong Kong Market (Lu Ping, Lao Minsheng; TA KUNG PAO, 15 Jun 84)	134

NATIONAL POLICY AND ISSUES

WU FAXU ON EFFICIENT USE OF CAPITAL

HK261000 Beijing JINGJI YANJIU in Chinese No 4, 20 Apr 84 pp 54-57

[Article by Wu Faxu [0702 3127 4872]: "Several Questions of the Understanding of the Efficiency of the Use of Capital"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, the question of the efficiency of the use of capital has drawn increasing attention from the people. However, on the problem of the efficiency of the use of capital, as related to the actual condition of the economic construction of our country, it seems necessary that we have a clearer understanding of the following points:

I. The Question of the Efficiency of Use of Capital Is Not Limited to Expanded Reproduction From Accumulation But Also Is Applicable to Expanded Reproduction From Nonaccumulation.

In recent years, economic theoretical circles in our country have engaged in discussing whether or not accumulation is the only source of expanded reproduction. I believe that it would have a more realistic significance in our country's economic construction if we could carry the discussions into a deeper study of the role of improving the efficiency of the use of capital in expanded reproduction.

Capital accumulation is the typical phenomenon of capitalism. In "Das Kapital," Marx likewise paid special regard to capital accumulation, that is, transformation of surplus value to capital. On more than one occasion he mentioned that capital accumulation constituted the source and basis of expanded reproduction, that the entire mode of capitalist production developed along with the accumulation of capital, and even that in some localities the terms accumulation and expanded reproduction were used as synonyms. However, in Marxist political economy, capital has never been regarded as a fixed amount possessing a fixed role but as possessing the characteristics of being "hidden," "expansionist," and "flexible." Once capital is combined with such material factors as labor and means of production, its role may exceed its quantitative role. In other words, reliance on improving the efficiency of the use of capital may enable the role of capital to exceed the fixed sphere of its own quantity, and, to a certain degree and within certain limits, may bring about expansion of the scale of reproduction. We may term this expanded

reproduction from nonaccumulation. In his criticism of Ricardo's theory of accumulation, Marx clearly elucidated this viewpoint: "The yearly expansion of production is due to the following two causes: First, a continuous increase of capital entering into production; and second, continuous improvement in the efficiency of the use of capital."¹ In the relevant chapters and sections in "Das Kapital,"² Marx continued to analyze the role of these two causes in bringing about expansion of production each year, and clearly told us that improving the efficiency of the use of capital not only can increase the actual amount of accumulation and thus expand the scale of reproduction but also, by means of methods of nonaccumulation, directly expand the scale of production. In the case of equal amounts of capital, under conditions of an identical accumulation rate, it may be found that the greater the efficiency of the use of capital the larger is the actual amount of accumulation and the larger is the value available for increasing the capital for reproduction. This is one form of role played by the efficiency of the use of capital in expanded reproduction. And the other form of the role played by the efficient use of capital in expanded reproduction is the use of the same constant capital value as further means of production, the use of the same variable capital value to make available more labor, and the use of the same quantity of production factors to improve efficiency and increase production through reduction of consumption. In "Das Kapital," what Marx discussed was the economic stature of capitalism but even though we leave aside the capitalist form, many of his basic principles are still applicable to socialized production forms. Hence, in a socialist economy, what we should demand of enterprises, regardless of whether or not there is additionally requisitioned capital, is to highly stress improving the efficiency of capital and to fully utilize the two functional forms of efficiency in the use of capital in expanded reproduction.

II. The Question of the Efficiency of Use of Capital Is Not Confined to Capital in Monetary Form But Is Also Applicable to Capital in the Form of Material Objects.

In the use of capital, many comrades frequently stress money rather than management skills. They confine themselves to the management of monetary capital and circulating capital and fail to tightly grasp the all-round management of the three forms of capital in circulation, namely, monetary capital, production capital and commodity capital. Throughout the entire production process, they are unable, from beginning to end, to tightly grasp the efficiency of the use of capital. This is one of the causes of the low economic results of a portion of the enterprises. Hence, we should learn well and utilize well the theory governing the circulation and turnover of capital and should, in an all-round way, improve the efficiency of the use of capital in the three forms of capital circulation and the three stages of the entire production process.

1. Marx: "Theory of Surplus Value," "Collected Works of Marx and Engels," Vol 26 (II), p 598.

2. Marx: "Das Kapital," Vol 1, Chapter 22, Vol 2, part 2, and section 2 of Chapter 18.

[HK261002] The first period of the production process marks "the vanguard stage of the function of production capital."³ In this stage, capital is converted from the monetary form to production capital and completes the union of the material factor and human factor in the production process. In this stage, capital is not wholly situated in the passive state of buying only as many production elements and as much material as is made possible by the limited amount of funds. Rather, there are many ways of improving the efficiency of the use of the capital. Aside from such measures as a rigid control of the reserves in the first stage of the production process, grasping an appropriate ratio between the amount of the means of production purchased and the quantity of labor available, and fully making use of the opportunity offered by price changes to expand purchases of factors of production, residual portions of depreciation funds of fixed assets may also be utilized, use of credits or the raising of funds, or speeding up capital turnover, or utilizing monetary funds which are in a free form, all with the objectives of spending less money but accomplishing more work and spending the same amount of money but accomplishing more. This is what Marx said: "Ability to use less monetary capital to operate the same amount of production capital, or to use the same amount of monetary capital to operate a larger amount of production capital."⁴

The second period of the production process marks the stage of production consumption and growth of value. In this stage, the form of the existence of production capital is seen in the various kinds of material factors put into the production process. As for the extent of the potential it can display, it is entirely determined by the level or standard or utilization of the factors of production. Marx made a rather exhaustive study of the problem of how capitalist enterprises endeavor to improve the efficiency of the use of production capital such as: rigidly economizing on the consumption of materialized labor and live labor; stepping up the exploitation of labor power; organizing cooperation and division of work; improving the labor productivity rate; effectively using labor, materials, science, and technology; making full use of natural power and natural materials; reducing and utilizing waste materials from production, and so on. In other words, "the functional extent of a definite amount of capital is regulated by various kinds of hidden potentials in the production process, and, to a certain extent, these potentials are not related to the value of the capital itself."⁵ We should in a general way, study and make use of the various methods of putting the potentials of production capital into full play enumerated in "Das Kapital," subject to the logical premise that they are not opposed to the nature of socialist enterprises.

The final period of the production process marks the stage of the end of circulation of monetary capital and the realization of value. Capital in this stage must put aside its commodity form and return to its monetary form. Although this change in the form of capital does not increase its value, we should not neglect improving the efficiency of the use of capital. Concerning

3. Marx: "Das Kapital," People's Publishing House, 1975 Edition, Vol 2, pp 42, 395, 48.

4. Ibid.

5. Ibid.

this problem, many of our enterprises have already felt the importance of the stage of selling or marketing. If circulation is not smooth and there is stockpiling of products, capital circulation and reproduction will be impeded. Hence, enterprises are all being transformed from the production model to the production and operation model. In discussing the effects of circulation on reproduction, Marx said: "Because of differences in the speed of sales or marketing, the role performed by identical amounts of capital may differ vastly as factors in the formation of products and the formation of value and the scale of reproduction may either expand or dwindle to a greatly varying extent."⁶ Hence, in this stage, it is necessary to do the utmost to shorten circulation time, lower circulation expenses and reduce the amount of commodity capital used. This is another important link in improving the efficiency of the use of capital.

III. The Question of the Efficiency of Use of Capital Is Not Confined to Expanded Production by Intension But Is Also Applicable to Expanded Reproduction by Extension.

At present, whenever the efficiency of the use of capital is mentioned, some comrades will think that it belongs to the realm of expanded reproduction by intension. This is another misunderstanding. In reality, the role of the efficiency of the use of capital is not confined to expanded reproduction by intension but also in expanded reproduction by extension. Attention should be paid to the efficiency of the use of capital. [HK261004] An important lesson we have learned from the past is that we too highly regarded the amount of investment and neglected the investment results and that both in expanded reproduction by extension and expanded reproduction by intension, the results of the use of capital were not high. The principal symptoms of the low efficiency of the use of capital in expanded reproduction by extension were the new construction front being too broad, serious cases of redundant construction, lengthy construction periods and slow economic results. For a rather prolonged period, the average construction period of large and medium-sized projects was 11.5 years, an increase of nearly 100 percent over the First 5-Year Plan period. Moreover, there were a number of cases which started construction without having been fully studied and examined beforehand, which resulted in prolonged investment, failure to produce any results, and the eventual abandonment of the construction work. There were also cases in which completed projects could not normally produce any economic results. The waste of funds caused thereby was just like what Marx had described: "If the construction work is not continued, the means or production and labor already expended in the production and construction work will simply have been wasted. Even though construction is subsequently resumed, continuous losses may still be incurred in the interval."⁷ In some construction projects, particularly big and important ones, after going through stoppage and resumption of construction work several times, really huge amounts of valuable construction funds, have indeed been wasted as "tuition fees." Naturally, in expanded reproduction by intension, we should also strive to improve the efficiency of the use of capital. If the efficiency rate of the use of capital in the existing enterprises in our country can reach the level of the First 5-Year Plan

6. Ibid.

7. Ibid., p 257.

period, then the state-run enterprises covered in the state budget alone can effect savings of circulating funds amounting to several tens of billions of yuan and taxes and profits can be increased by around 20 billion yuan. It can thus be seen that be it expanded reproduction by extension or by intensification, it is necessary to abandon the idea of spending money without caring about the results and investing without regard to the investment results. Truly capable organizers in economic work should make good use of the current availability of funds.

IV. Question of Efficiency of Use of Funds Not Confined to Microeconomic Activities But Also Applies to Macroeconomic Activities.

Microeconomic activities naturally should pay attention to the efficiency of the use of capital, but in both our understanding and work we should not confine the problem of efficiency of the use of capital to the micro sector. The socialist system creates advantageous conditions for simultaneously improving the efficiency of the use of capital in both the micro and macro sectors. In particular, in regard to improving the efficiency of the use of society's capital with a view of the national economy as a whole, this is something that defies comparison with the capitalist economic system and constitutes a great superiority on the part of a socialist economy under the public ownership system. For a considerable period in the past, because of the lack of experience and because of errors in work, this superiority could not be fully displayed. Between the two big divisions of social production and between the various stages of production, distribution, exchange, and consumption, there were serious imbalances for which a great price was paid. Experience and lessons have told us that while we must sternly deal with cases of individual units displaying a low efficiency rate and constantly operating in the red, the adverse effects are still comparatively small and can be easily rectified through consolidation. However, if in the macro aspects money is wasted in the national economy and no regard is paid to efficiency of the use of funds, then the effects will have a bearing on the whole situation and are far-reaching in character and the consequences are relatively serious. Therefore, at present, we should, taking the improvement of the economic results as the logical premise, open up a new phase of coordinated development of the national economy. Viewed from a definite angle, first of all we should carefully determine the proportionate distribution of the national income, perform well the job of making an overall balance of accumulation funds and consumption funds, and perform well an overall balance between the two big divisions of social production and between the various departments. [HK261006] In addition, on the macro side, we should improve the efficiency of the use of funds in the national economy and also attend to many other big jobs such as breaking the demarcation lines between localities, departments, industries, and trades and promote economic union and specialized cooperation; encourage renovation and technical transformation and eliminate backward technology and backward products; strengthen planned guidance, readjust the industrial structure and the structure of products, and blind production; make use of economic levers such as prices, taxes and interest rates to promote a continuous improvement of the results of economic activities; smooth out and clear the circulation channels and reducing excessive storage and stockpiling, and so on. Comrade Xue Muqiao

has estimated that if we can improve the efficiency of the use of capital by means of superior and effective methods and if the amount of circulating funds can be reduced by 3 billion yuan a year, then our country's rate of accumulation can be lowered by 1 percent; and if the circulating funds can be reduced by 10 billion yuan a year, then the accumulation rate can be lowered by 3 percent. Moreover, there still looms another and bigger possibility. That is, concerning the 500 billion yuan worth of industrial fixed assets we have already accumulated and the yearly investments of around 70 billion yuan on fixed assets, if we can improve the efficiency of utilization by 1 percent, then we can obtain over 5 billion yuan worth of additional benefits.

When touching on the topic of toiling hard to do pioneering work, Comrade Deng Xiaoping pointed out: "The biggest problem is to eliminate all kinds of waste, improve labor productivity, reduce the volume of products which cannot meet social needs and of rejects that do not conform with the required standards, lower production costs, and improve the efficiency of the use of funds."⁸ This clearly shows the important and urgent nature of improving the efficiency of the use of capital. Our country is a developing country. The productive forces of our society are still not developed. The state of a shortage of capital in our country can hardly be greatly improved in the foreseeable future. In order to realize the objective of quadrupling the gross output value of industry and agriculture, the development of our socialist economy cannot solely depend on increasing investments. Rather, we should resort to the two-fold tactic of increasing capital accumulation and improving the efficiency of the use of capital. We should put the emphasis on improving the efficiency of the use of capital and let the efficiency of the use of capital fully display its capacity and role in promoting our country's socialist economic construction.

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8. Deng Xiaoping: "Current Situation and Tasks," "Selected Works of Deng Xiaoping," p 225.

PROVINCIAL AFFAIRS

FLOURISHING INDIVIDUAL INDUSTRIAL, COMMERCIAL ENTERPRISES

Changsha HUNAN JINGJI XINXIBAO in Chinese 25 Apr 84 p 1

[Article by Li Xianshan [2621 7359 1472], Hunan Provincial Bureau of Industry and Commerce: "Flourishing Development of Individual Industrial and Commercial Enterprises in the Cities and Villages of Hunan"]

[Text] In recent years, there has been a very rapid development of individual industrial and commercial enterprises in the cities and villages of our province. During the 4 years from 1980 to 1983, the individual industrial and commercial enterprises in all the cities and villages of the province have developed to as many as 320,611 enterprises with 363,378 persons, among which 235,409 were rural enterprises with 272,020 persons and 78,916 enterprises with 91,358 persons were located in cities and towns.

In order to organize the individual industrial and commercial entrepreneurs so that they may at all times have an understanding of the general principles and policies of the party and the government and that they may have a chance at all times to submit their ideas and demands to the departments concerned, individual workers associations are now being established in all localities with the assistance of the departments in administrative control of industry and commerce. Up to now, 121 such associations have been established in the Zhou, counties and municipalities throughout the entire province, and an association at the provincial level will be established in the latter half of this year.

The reason why the individual industrial and commercial enterprises could develop so rapidly in our province is, first of all, because of the intensified leadership and guidance provided by the party and the government. The provincial government has called several working conferences of the entire province's industry and commerce and of commerce and the rural sector and has made specific arrangements for a broadening of policies, for a more lively circulation of commodities and for the development of individual economic activities. Another reason is the improvement in working methods and the simplification of procedures for checking and approving applications. In the past, for permits for the operation of individual businesses, authorities at different levels were involved with a complex procedure to be followed. Especially in the countryside, permits had to be countersigned by seven or eight different departments, which was a great

inconvenience for individual entrepreneurs. The later simplification of the procedure ensured a smooth process for permit operations. Yet another reason is that the departments concerned have actively supported the individual entrepreneurs with regard to capital funds, sources of goods, space for operations, etc, and have helped them in solving any difficulties. Apart from this, with more liberal policies, many irrational restrictions were abolished. For instance, they abolished the unreasonable age restrictions for individual industrial and commercial entrepreneurs who engage in long-distance trade or shipments or who market large lots of commodities or who practice joint buying and separate selling, thus broadening the scope of business operations. With all these appropriate measures, the individual industrial and commercial business operations have developed precisely in the right healthy direction.

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ECONOMIC DEVELOPMENT ZONES

SHIJIE JINGJI DAOBAO ON OPENING QINHUANGDAO TO WORLD

HK220756 Shanghai SHIJIE JINGJI DAOBAO in Chinese 4 Jun 84 p 7

[Report: "New Ideas About Opening Qinhuangdao to the World"]

[Text] The further opening of coastal cities to the world, the setting up of economic zones for development, and the like are all new ideas. New ideas must be handled in a new way. During his visit to Qinhuangdao, this reporter hit upon some new thoughts about the way to handle new ideas. They are presented below for study or discussion:

1. Some parcels of land in the economic areas to be developed may be leased on a long-term basis and put under the control of foreign capital. The lease may last 30 or 50 years. The state may have an interest, using such pieces of land as its share of investment capital, or it may simply benefit from the rental. Nothing should be demanded of foreign enterprises set up on the leased land except that they observe our country's various laws and decrees and pay the rent as stipulated. All fundamental facilities on a rented piece of land are to be set up by the foreign businessmen concerned, as they are committed to their management.

2. In keeping with accustomed international practices, financial syndicates or holding companies may be established. While introducing foreign projects into the country, we may at the same time launch and run enterprises abroad. Those comrades advocating this idea hold that a person remaining on land cannot learn how to swim. Only by getting involved with foreign markets can he really learn the skill of using foreign capital. Can the well-known Yaohua Glass Company of Qinhuangdao City come forward to organize a Yaohua group, registered in various parts of the world, which is gradually aimed for the world market?

3. Enterprises of coastal cities that badly want to undergo technical transformation may issue stocks and strive to sell large holdings to foreign financial groups. The aim is to exploit the stockholders' eagerness for improved enterprise management in order to stimulate the import of technology and the betterment of management. The advocates of this idea hold that by just spending money on the import of technology we often cannot bring in appropriate management and operation expertise and many kinds of intangible "software." The above approach can arouse still greater enthusiasm on the part of foreign capital to bring in technology and improve management.

4. Several square kilometers of seaside land may be set aside for an international tourism center and meetings with no entry or exit restrictions. Financial and other business establishments are also encouraged to open shop here. As long as their activities do not run counter to our country's laws and decrees, they should be left alone. The holders of this idea believe that given the establishment of a tourism center, and meetings and financial operations with no entry or exit restrictions, then we can have easy access to all interesting trends without going outdoors.

People here believe that there is definitely not just one way to handle new things. What is most important is whether we have the determination to really live up to the requirement of "no change in stand but totally new methods." From now on we must do away with the bonds of hackneyed management system, strive to learn everything that represents good experiences and methods, and establish a set of new economic mechanisms with Chinese features and components of a diverse nature.

CSO: 4006/601

ECONOMIC DEVELOPMENT ZONES

ZHEJIANG'S NINGBO CITY OPENS TO OUTSIDE WORLD

OW181235 Hangzhou Zhejiang Provincial Service in Mandarin 1030 GMT 16 Jun 84

[Text] At a meeting sponsored by the Ningbo Municipal Party Committee and the municipal government today, a leading member of the municipal party committee and government informed the people of Ningbo of some measures to be taken to further open the city to the outside world. He said that, to improve the city's telecommunication and communication services, Ningbo will carry out the following three projects in the near future:

1. Installation of a 10,000-telephone program control facility in Ningbo and a 960-circuit microwave link between Ningbo and Hangzhou; and installation of a direct-dial international telephone service upon completion of the expansion project of the Shanghai International Telecommunications Bureau.
2. Expansion of the existing Ningbo military airport so that it can accommodate AN-24 and TU-154 aircraft. Preparations will also be made to build a second-class international airport at the existing (Lishe) airfield.
3. Use of foreign capital to improve the inner-city bus service and set up car rental companies.

With regard to the development of intellectual resources, the leading member of the Ningbo Municipal Party Committee and government added that, in addition to improving the existing institutes of higher education, foreign capital will be used to build colleges of petroleum industry, chemical engineering, textile industry, shipping industry and medicine, build additional secondary professional and vocational schools, and cosponsor research organs with foreign sponsors. To provide services needed by foreign businessmen, the municipal government has also decided to build in the eastern part of the old city district a foreign trade center to house permanent offices of foreign enterprises and to provide banking, trade, postal and telecommunication services. Also high-class guest houses, apartments for foreign businessmen, and cultural, recreational, sports and health facilities for foreign businessmen will be built in this area.

CSO: 4006/601

ECONOMIC DEVELOPMENT ZONES

BRIEFS

SINO-U.S. JOINT VENTURE--The Ningbo City Light Industrial Company recently concluded a preliminary agreement with a foreign firm on establishing a Chinese-foreign joint venture in Ningbo, according to a report by this station's correspondent (Ma Guoqing). Tentative plans for establishing this joint venture--a food processing enterprise--call for an initial investment of \$5 million. A U.S. (?United) Food Corporation delegation, through the introduction and arrangements made by the China International Trust and Investment Corporation, arrived in Ningbo on 4 June. Talks between the Ningbo City Light Industrial Company and the visiting delegation went smoothly, thanks to the efforts made by the company's staff to make full preparations in advance. It took only 2½ hours for the two sides on 5 June to reach agreement on 11 related matters. The time spent was devoted to exchanging letters, translation, putting seals on papers and signing protocols. This was one of the times Ningbo City conducted trade talks with high efficiency with a foreign firm since the city was opened to the outside world. [Text] [OW180921 Hangzhou Zhejiang Provincial Service in Mandarin 0400 GMT 17 Jun 84]

CSO: 4006/601

ECONOMIC PLANNING

SUGGESTIONS FOR OVERALL DEVELOPMENT STRATEGY

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] in Chinese No 1, 25 Jan 84
pp 2-9

[Speech by Ma Hong [7456 3163] at the Symposium on the Overall Development Strategy of the Economy, Society, Science and Technology held 21 October 1983 at the Research Center for the Economics of Technology under the State Council: "Make Suggestions for China's Socialist Modernization"; responsible editor of this article is Tang Xiaomei [0781 2556 2734]

[Text] The 12th Party Congress set forth a general task for the people of all nationalities in China in the present stage, that is: "Unite the people of all nationalities in China to fulfill, step by step and through self-reliance and hard work, the modernization of industry, agriculture, national defense and science and technology [S&T] and to build China into a socialist country with a high level of civilization and democracy." To fulfill this great historical task successfully, we need to conduct in-depth studies of China's development strategies. While talking about the strategy issue of China's revolutionary war, Comrade Mao Zedong once said: "The strategy issue is something that studies the law of war as a whole." By the same token, if we are to study the development strategies of China's economy, society and S&T, we should also study the thing that studies the law of the situation as a whole. This requires us to study the overall strategy for the comprehensive development of the economy, society and S&T. In other words, on the basis of summing up the experiences and lessons gained by China and other countries, we need to study the current situation and development trends in all aspects of China's economy, society and S&T; their interrelations; and the various favorable and unfavorable factors concerned with development. We also need to make suggestions on the basic policies and tactics for fulfilling China's general target set for a relatively long period of time in the future. I would like to discuss some of my humble opinions in the following three areas: the guiding ideology for studying and formulating China's development strategies, the situation in China's study of development strategies and the major issues to be discussed at this symposium.

I. On the Guiding Ideology for Studying and Formulating China's Development Strategies

The CPC Central Committee, the State Council and central leading comrades have given many important instructions in this regard. As I understand, the main points of these instructions are as follows:

1. We need to combine the universal truth of Marxism with the concrete reality of China and take our own road. This means that we must proceed from the reality of China in carrying out socialist modernization. We have continuously enhanced our understanding of the significance of this issue by continuously summing up experiences and lessons in the course of carrying out China's socialist construction. In the opening speech of the 12th CPC Congress, Comrade Deng Xiaoping stressed: "Our modernization drive must proceed from China's reality. Whether in revolution or construction we all need to learn from and draw on the experiences of foreign countries. But copying indiscriminately the experiences and models of other countries has never achieved success. We have quite a few lessons in this regard. We need to combine the universal truth of Marxism with the concrete reality of China, take our own road and build socialism with Chinese characteristics. This is the basic conclusion we have reached after summing up the historical experiences we have gained over a long period of time."

Since the current level of China's productive forces is relatively low, fulfilling socialist modernization will be a relatively long process. Comrade Deng Xiaoping once said: "We should always keep in mind that because our country has a vast territory, a large population and a weak foundation, we cannot reach the level of the developed countries unless we fight for a long period of time." For example, because we have ignored this salient feature, our past demand on economic construction has been too high and hasty, and we have committed mistakes that belong to the "theory of quick success." From now on, we should avoid repeating such mistakes. For another example, because the uneven development of different regions of our country has been formed over history, it is inevitable that some regions will realize modernization faster than others. Indeed, modernization will be realized ultimately in all regions. But it is difficult to eliminate unevenness in development during a short period of time. Of course, we still need to conduct a great deal of investigation and study in order to have a really clear understanding of national conditions and to formulate correct development strategies.

In sum, our overall development strategy should use Marxism as a guide and closely combine Marxism with China's reality. Specifically, we should study and formulate an overall development strategy that has the following three basic characteristics: 1) It should have Chinese characteristics, not copy the models of other countries. 2) It should adhere to the socialist road, continuously improve the socialist system, bring the superiority of socialism into full play and not support capitalism. 3) It should realize modernization, oppose backwardness and vigorously seek rapid development and progress.

2. We should combine the development strategies of the economy, society and S&T and conduct a comprehensive study. What we are studying now is an overall development strategy. Economic, social and S&T developments affect and condition each other. Therefore, if we only pay attention to the development of one field and ignore the others, we are bound to fail to attain the objective of development. Should we achieve a certain success, it will only be temporary.

In his "Speech at the Opening Ceremony of the National Scientific Rally," Comrade Deng Xiaoping pointed out: "Under the condition of proletarian dictatorship, if modernization is not carried out, S&T levels are not raised, social productive forces are not developed, if national strength is not enhanced and if the people's material and cultural living standards are not improved, our socialist political and economic system will not be fully consolidated and our national security will not have reliable assurance. The more modernized our agriculture, industry, national defense and S&T are, the more powerful we will be in struggling against the forces that undermine socialism and the more support our socialist system will get from the people. Only by building China into a strong, modernized socialist country can we more effectively consolidate the socialist system and cope with the aggression of foreign aggressors. Only by doing so can we have more assurance in creating step by step the material conditions to advance toward the lofty ideal of communism." Therefore, we must conduct a comprehensive study of the overall development strategy for the economy, society and S&T to create a coordinated development in these fields. The basic contradiction in a socialist society still remains a contradiction between production relations and productive forces and between the superstructure and its economic foundation. Efforts to bring about coordinated development in the economy, society and S&T will be helpful to solving this contradiction. We have made some progress in the study of the economy and S&T and their interrelations. We should continue carrying out this study in depth. Since economic development strategy is the foundation and a major component of the overall development strategy, we should focus our primary energy on this field. There is no doubt about this. Various social factors such as the evolution of history, the origins of culture, the traditions of our nation, the situation of the population, the quality of the people, the structure of society and the system of management are closely related to economic and S&T development. But our study of these factors and their relations with economic and S&T development in the past was insufficient. This problem is worth noting.

3. We should correctly handle the relationship between the speed of development and economic results. With regard to the relationship between the speed of overall economic, social and S&T development and economic results, we should always give priority to the improvement of economic results. We should not undermine economic results by one-sidedly seeking a temporary high speed. We have learned our lessons in this regard from the history of our construction. We should not aim too high and think that we can soon "catch up with and surpass" the level of developed countries without having to work hard and exert ourselves. There are two quotations

from Comrade Deng Xiaoping's speech which I think we need to study carefully. In "Current Situation and Tasks," Comrade Xiaoping pointed out: "We have various kinds of favorable conditions. We are surely able to catch up with the advanced countries in the world. But we should also realize that to narrow and eliminate the gap formed in 2 to 3 centuries, or at least over a century, we must be determined to work hard for a long time. During a considerable period of time we have to promote and carry out hard work to start our undertakings." While addressing a delegation from Western Europe in 1979, Comrade Xiaoping mentioned: "By the end of this century, China's economic level certainly will not reach your current level. It would be terrific if China's technological level can reach your current level by then." The central authorities have repeatedly emphasized the need to shift all economic work to the course of improving economic results. This principle was set forth in view of China's past situation in which the speed of economic growth was not slow but economic results were very poor. This very situation still exists in China.

4. We should correctly handle the relationship between immediate interests and long-term interests. We should give serious thought to this issue and weigh the pros and cons when we handle the relationship between speed and economic results and between accumulation and consumption and when we consider such issues as economic planning, technological progress, personnel training, investment direction, resource utilization, population control and environmental protection. We must never consider only immediate interests and undermine long-term interests. Especially when dealing with the development and utilization of natural resources and the protection and improvement of the environment, we should pay still more attention to this issue. We should consider preventing and controlling environmental pollution, protecting ecological equilibrium, accelerating economic development and bringing benefits to future generations as principles of our socialist modernization. In this regard, central leading comrades have given many important directives, covering issues ranging from preventing and controlling environmental pollution and ecological destruction to treasuring and rationally utilizing every inch of land; from reforestation and greening the motherland to growing trees and grass and conserving water and soil; from formulating the "Law on Forestry" and the "Law on Environmental Protection" to including environmental protection in the "Sixth 5-year Plan"; and from pointing out the need to devise 10- or 20-year plans for agriculture, forestry and water conservation to considering the development of these fields in 50 years, a century or even longer. All this shows that our party has great foresight and a great sense of responsibility toward the future of the state and nation. We have 9.6 million square km of land, a vast area of territorial waters and the resources above and under the land and waters. This is the natural environment on which our state and nation depend for existence and development. In the course of developing industrial and agricultural production and improving the people's living standards, we should both bring into full play the functions of economically more developed areas and vigorously help economically less developed areas to develop as soon as possible. We should both remake nature and adapt to nature. We should both develop

and utilize various natural resources, value every natural resource and protect the ecosystem so as to ensure continuous utilization and sound development. We must never do such foolish things as killing chickens in order to get eggs and drying ponds in order to catch fish.

5. We should pay attention to building both a socialist material civilization and a socialist spiritual civilization. This demand was set forth after summing up the historical experiences gained in China's socialist construction and in accordance with the history and reality of developed countries where material civilization is developed but spiritual civilization is degenerated. In his report to the 12th CPC Congress, Comrade Hu Yaobang profoundly expounded on the great significance of the building of a socialist spiritual civilization. He said: "After the whole party shifted the focus of work to modernization and economic construction, the CPC Central Committee seriously pointed out on many occasions that while building a material civilization we must strive to build a high-level socialist spiritual civilization. This is an issue of strategic principle in building socialism. Both socialist historical experiences and China's current situations tell us that whether or not such a principle is adhered to will affect the rise and fall or the success and failure of socialism." He also said: "The building of a material civilization is an indispensable foundation for building a socialist spiritual civilization. The socialist spiritual civilization not only plays a great role in promoting the building of material civilization but also guarantees that it can develop in a correct direction. These two civilizations are interdependent and serve as each other's objective." Therefore, the building of socialist spiritual civilization is an important characteristic that distinguishes a socialist society from a capitalist one. It is an important expression of the superiority of the socialist system. Under the condition that capitalism still exists internationally and China's class struggle still exists within a certain scope and will still exist for a long period of time, the question of how to strengthen the building of a socialist spiritual civilization, prevent capitalist spiritual contamination and clean out capitalist ideological rubbish is a major problem concerning the rise and fall or success and failure of China's socialism. The 2nd Plenary Session of the 12th CPC Central Committee which just concluded specifically emphasized this issue. Undoubtedly, the development strategy studied and formulated by us must include contents in this regard. In the process of our study, we must pay great attention to this issue. While drawing on certain experiences of capitalist countries or referring to certain works by bourgeois scholars, we must pay special attention to avoiding capitalist ideological contamination.

6. We should consider changes in the development of the international environment. China's development should take into account changes in the international environment. We should pay attention to this especially when we carry out the policy of opening to the outside world. Comrade Zhao Ziyang attaches great importance to this issue. He once urged us to study the effects on China's economy caused by the international energy supply and demand situation, the readjustment of oil prices and

the economic stagnation and expansion of the developed Western countries. Recently Comrade Zhao Ziyang assigned us the task of studying the "new world industrial revolution" and our countermeasures. On 9 October he personally presided over a symposium and dwelt on eight ideas. He emphasized: "Whether this so-called new industrial revolution is referred to as the fourth industrial revolution or as the third tide, they all believe that the Western countries which achieved a high degree of industrialization in the 1950's and 1960's in the 20th century are now changing from an industrial society to an information society, which is also referred to as a knowledge or intellectual society. They say that the information society is synonymous with the mass production of knowledge. 'The productive force of knowledge has become a crucial factor in the determination of productive forces, competitiveness and economic achievements.' These arguments all reflect some trends in the economic and social changes that have occurred in capitalist countries after industrialization. Economists, sociologists and futurists in the capitalist world is bogged down in crises and is having a hard time, they try to find a prescription that can inspire the people and extricate themselves from a difficult position by imagining that a 'wonderful new era' is coming. Fundamentally speaking, these viewpoints violate the basic principle of Marxism. Whether their viewpoints are accurate or not or whether they have other purposes or not, from another angle we can get such a message: By the end of this century, or the beginning of the next century or in the next few decades, there will be a new situation. That is, the use of new technologies, both currently available and to be available in the near future, in production and society will bring about a new leap in the productive forces of society which will accordingly create a new change in the living standards of society. This trend is noteworthy. We should study it conscientiously and, in light of our actual conditions, define the proper economic strategies and technological policies to be adopted for long-term plans, covering 10 or 20 years, especially S&T plans," Comrade Zhao Ziyang further pointed out: "The new world industrial revolution is an opportunity as well as a challenge" to us in our advance toward the four modernizations in the future. "There are two possibilities. One is that we may narrow the economic and technological gaps between us and the developed countries if we make good use of this opportunity, focus on the utilization of new S&T results and develop our own economy. The other is that we may widen the gaps between us and the developed countries and advanced world levels and lag farther behind if we fail to handle this situation properly or ignore it. We should strive to realize the first possibility and avoid the second. To carry out China's economic construction and S&T undertakings, we should base ourselves on current situations and strive to make a success of all our current work. At the same time, we should aim high, foresee the new trends of economic and S&T development in the world and think about what we can learn from them and what we need to pay attention to so we can do a still better job in our socialist modernization." These important directives are a major guiding ideology for the study and formulation of China's long-term development strategy. We should study them carefully.

II. China's Situation in Carrying out the Study of Development Strategies

In accordance with the tasks and demands set forth by the central authorities, all fields have carried out much helpful work and made very good progress with regard to study of development strategies in the past few years.

1. Many departments and regions have carried out the study of development strategies. Since 1980, in the course of formulating long-term plans, the State Planning Commission has launched several probes into the basic ideology and guiding principles for China's economic development, "formed some tentative basic ideas for the formulation of long-term plans" and set forth in explicit terms 14 basic principles for national development. In 1982, the State Planning Commission again set forth six strategic ideas that need to be established in the long-term development of China's economy in the future. The State Scientific and Technological Commission began early this year to organize responsible comrades and experts of the departments concerned to draw up long-term S&T development plans. This is a very good practice in studying and formulating S&T development strategies. The departments concerned also strove to explore a socialist road of agricultural development with Chinese characteristics. Related research institutes under the Chinese Academy of Social Sciences have also achieved some initial results in studying development strategies. All provinces, municipalities and autonomous regions are also exploring their own development strategies in view of their local characteristics. Since the beginning of this year, the consumer goods special group at the Research Center for the Economics of Technology under the State Council has conducted studies of China's consumption patterns and several strategic issues on the production of consumer goods and has sorted out the initial results. What we particularly need to point out here is that since February 1981, six units--the policy bureau under the State Scientific and Technological Commission, the Scientific and Technological Information Institute of China, the economics institute under the State Planning Commission, the economics institute under the Chinese Academy of Social Sciences, the Research Institute of World Economics and the Society of the Economics of Technology--have jointly convened 16 symposiums on issues concerning economic and social development strategies. With Comrade Yu Guangyuan [0060 0342 6678] and Tong Dalin [4547 1129 2651] presiding, these symposiums have discussed issues concerning economic development targets, the relationships between S&T and economic and social development, the regional economy, the economy of the special economic zones, the economics of national resources, national conditions, population and employment. Speeches delivered at these symposiums and theses submitted to them have been compiled and printed in books to be published as special information series.

2. We have carried out the study of "China in the Year 2000." In accordance with Comrade Hu Yaobang's directive about the need to draw a clear picture of what China will look like in 20 or 50 years, the parties concerned have carried out the study of "China in the Year 2000" one after another since 1981. With the support of the departments concerned, the China Scientific and Technological Information Institute has gathered a large amount of

information, studied such issues as China's population, economy, food, natural resources and communications and transportation in the year 2000 and submitted initial reports on individual subjects. Many other units have also conducted investigations and studies to various degrees within the scope of their specialization. In late August of this year, China's Future Research Society held a seminar called "China in A.D. 2000" in Huangshan. Over 100 theses were submitted to the seminar, reflecting research results in this regard. The Research Center for the Economics of Technology under the State Council began to study this issue in the second half of last year and included it in the state plan for major research subjects of the social sciences under the "Sixth 5-year Plan" in March of this year. This research center has so far compiled and published over 50 issues of reference materials on the study of strategic targets for the year 2000 and its special research groups have undertaken 57 research projects concerning the study of the year 2000. In May of this year, this center and the Chinese Scientific and Technological Association jointly held a report meeting on the study of "China in the Year 2000," mobilizing and organizing 108 national S&T societies to participate in this research activity. The Chinese Scientific and Technological Association is now actively organizing this research work. Comrade Zhao Ziyang recently gave important instructions for the planning of work at the Research Center for the Economics of Technology under the State Council. He said: "The study of 'China in the Year 2000' is a great project. Whether or not we can come up with a book with good quality is of great significance. We must exert ourselves to make it a success." In order to carry out Comrade Zhao Ziyang's instructions, this research center has listed the study of "China in the Year 2000" as one of its major tasks and formed leading groups and work teams with comrades of the units concerned to carry out the research work actively. In addition to submitting timely reports on research results to the CPC Central Committee and the State Council, this research center also prepares to have the Chinese Social Science Publishing House publish a set of books under the title of "Research on China in the Year 2000."

3. We have also studied the situations in foreign countries. In recent years, China's academic circles have carried out research on the development strategies and models in developed countries and East European and Asian countries and regions. We have also introduced foreign books and theories on the research of future development strategies. The purpose in studying the trend of development in the world is not to copy indiscriminately the experiences and models of others. It is to broaden our horizons and use the opportunity to develop ourselves.

Since a large amount of work has been carried out by all circles in the past, we have established a good foundation for the overall study of long-term development strategies. We may now carry out further discussions around some major viewpoints and strengthen the comprehensive study of the economy, society, S&T, population, natural resources and the environment. Aside from qualitative explanations, we should also strengthen quantitative analysis in order to better our research work.

III. Suggestions on Issues To Be Discussed with Emphasis at This Symposium

This symposium is a continuation of the first stage of the research on development strategies as well as a new starting point for the research on development strategies to be carried out in the future. This development strategy symposium is a symposium to discuss overall and comprehensive development strategies. It is not a symposium to discuss the development strategy of a certain field. Overall and comprehensive development strategies involve very complicated and wideranging subjects. Therefore, they require the cooperative research of many academic departments and fields.

We ought to say that all issues involved in overall development strategies are very important. But, due to time limitations, it is impossible to discuss them all at this symposium. Therefore, I suggest that this symposium focus on discussing the following issues:

1. What are the salient features of China's overall development strategy? As mentioned before, our guiding ideology for the formulation of development strategies is to "combine the universal truth of Marxism with the concrete reality of China and follow our own road." Concrete reality means national conditions. National conditions are different in different countries. For example, social systems, the number of people, the level of education, the size of territory, the conditions of natural resources, international surroundings, historical periods and international positions are all different. All these are concrete conditions that should be considered in forming the development strategies of all countries. Factors such as the existing basis of productive forces, S&T situations and cultural, educational and managerial levels in all countries should also be considered in the formulation of development strategies. Great attention should be paid especially to social systems. Therefore, the development strategies of all countries should be formulated in accordance with their own national conditions, not by imitating other countries indiscriminately. Otherwise, it would be very difficult to succeed. For example, many developing countries which copied the traditional strategies of developing countries now suffer from numerous foreign debts, inflation, growing unemployment and serious social problems. Instead of achieving rapid economic growth, these countries have become more dependent on developed countries. Because of this, they are now seeking new strategies. On the one hand, we should study foreign development strategies and related theories to broaden our horizons and ensure that we "know our enemies and ourselves." On the other hand, we must guard against the ideological pollution spread by bourgeois scholars.

A nation has different tasks and corresponding strategies in different historical periods. The 12th CPC Congress pointed out that China has entered a new historical period. Therefore, we cannot use our past development strategies without analyzing them.

China's development strategy should be a Chinese-style development strategy for socialist modernization. Marxism, Leninism and Mao Zedong Thought should be used as a theoretical basis for the formulation of China's development strategy. We should consider the salient features of China's development strategy in terms of these requirements.

2. Target and index systems. The 12th CPC Congress set a general task and development target for China in the new historical period, which is also our general target in formulating development strategies. The general task and target are to build a strong, modernized country with Chinese characteristics. This target is determined after summing up over 30 years of experience gained by China since its founding and after conducting comprehensive studies of the characteristics and trends in the development of society at the present stage. It conforms to the law of the development of society.

The target is formed by a huge, complex target system. The general target is a highly condensed form of the entire target system. The target system includes subsidiary target systems such as the economy, society, S&T, culture and the environment, under which are more target systems at a lower level, thus forming a multi-level structure.

China is a country practicing a planned socialist economy. In such a country, a planned index system plays an important role in national development. Planned index systems should reflect the demands of target systems so as to guarantee the fulfillment of the targets.

Our index system should be a comprehensive index system that reflects the demands of overall development. It should include both quantity indexes for economic growth and efficiency and quality indexes; both economic indexes and quality indexes for society, S&T, environment and the people's living standards; and both material civilization indexes and spiritual civilization indexes.

Formulating a fairly complete target system is a very meticulous job. The State Planning Commission and the departments concerned are working on this. We may offer suggestions on the principles to be followed while formulating the target system and the major contents the system should include.

3. What kind of road shall we take in the development of productive forces? In the study of development strategies, how to accelerate the development of productive forces is a major subject. There are a few choices of roads for the development of productive forces:

A. "Copying" strategy. We will do whatever others do. No matter whether they are roads taken by the Soviet Union and the East European countries or by the Western countries, we will follow suit and copy their strategies. As they say in the West, one should begin the so-called "fourth industrial revolution" after completing the so-called "third industrial revolution" or one enters the development stage of infant industries after going through the development stage of traditional industries.

B. "Catching up and surpassing" strategy. We have used this strategy before. It is to catch up or surpass the level of developed countries in major fields or even all fields within a relatively short period of time.

C. "Closed" strategy. This strategy is to seek "self-reliance" in everything. It does not actively adopt advanced foreign technology on even rejects it. We have also used this strategy before.

D. The name of this fourth kind of strategy is still being considered. Maybe we can call it the "creative" strategy. It is not to follow the roads that have been taken by the developed countries. It is not to "catch up" with others in all fields. It is not to do everything through "self-reliance." In other words, it is a creative strategy, not a "copying" strategy, a "catching up and surpassing" strategy or a "closed" strategy. It is to make full use of the current opportune moment and all available conditions in light of our national conditions and adopt directly various new achievements of the world which are the so-called results of the development of new industries if our conditions permit us. In other words, it is to adopt new foreign technologies that are a result of the development of new industries and are suitable for our needs under our current conditions if possible. Whether this is a proper choice is exactly the question we need to study.

In my opinion, when selecting our road, we should pay attention to separating the actual development process of foreign countries from objective laws, because in a capitalist society, production relations and productive forces have contradictions that cannot be overcome by relying on their own strengths, thus limiting and hindering the smooth development of productive forces. Therefore, roads taken by them do not necessarily totally conform to the law of economic development, especially the law of the development of a socialist economy. This is why we must never follow the roads that have been taken by the developed countries.

4. How can we strive to quadruple the gross annual value of national industrial and agricultural production on the prerequisite of continuously improving economic results? Recently, in some articles, comrades' speeches and actual work, "the prerequisite of continuously improving economic results" has been omitted. Without this major premise, "quadrupling" would not be the same strategic target of economic development set forth at the 12 CPC Congress. This is a big issue worthy of our attention.

The prerequisite of continuously improving economic results is extremely important. We should not undermine the improvement of economic results and violate the demand of overall, long-term strategy by seeking a temporarily high speed of growth. We need to study how to increase taxes and profits to be delivered to the state and total industrial output value at the same time and strive to make the former grow faster than the latter.

An outstanding issue in this regard is how to quadruple total industrial and agricultural output value in a situation where energy output is doubled. Based on this demand, the coefficient of the elasticity of energy resources is very small, surpassing the current advanced world level. This issue should be handled conscientiously. We should proceed from various fields such as improving production techniques, raising the technological level, improving the managerial level, readjusting the product mix and vigorously saving energy. We also need to make great technological breakthroughs in certain sectors and trades.

5. How do we fulfill the goal of striving to keep the population under 1.2 billion by the turn of this century? How do we train and use competent personnel and improve the quality of the people? Practicing family planning to control the growth of population had to become and has become one of our basic national policies in economic and social development. There have been several estimates and plans on the limit under which China's population should be controlled by the end of this century. After studying and comparing these plans, the departments concerned set forth the demand of keeping China's population under 1.2 billion. In spite of this, in the next decade or so, China's population will grow by 200 million, which almost equals the current population of 1 United States and 2 Japans. No matter how rich a country is, if its population grows so much in such a short period, it has a bit problem--and China already has 1 billion people. It is an extremely arduous task to let 1.2 billion people all lead a comparatively well-off life with a fairly high level of material and spiritual civilization.

Since population strategy is a comprehensive issue and family planning involves many fields, we need to consider the issue of keeping the population under 1.2 billion together with issues concerning family planning, eugenics, society, the economy, employment, labor and wages and personnel training.

Another important issue concerning population strategy is how to make proper arrangements for the employment of several hundred million more people, accelerate the training of competent personnel and improve the quality of the people. We should consider such issues as training and using competent people, improving the quality of the people and raising the scientific and cultural levels of the whole nation in a comprehensive manner.

6. The picture of the level of a comparatively well-off life in the future. There have been many tentative ideas and forecasts on the picture of the level of a comparatively well-off life in the future. We have also conducted some quantitative analysis in this regard.

How do we choose a plan for the level of a comparatively well-off life? How do we guide the consumption of the people? Shall we encourage or limit consumption? How do we combine the promotion of hard work and thrift with the improvement of the quality of the people's lives? These questions all need to be discussed. The level of income and the quality

of the people's lives can be very different in countries with the same level of per-capita national income. How to judge the quality of our life is also a question that needs to be studied.

When determining a policy of consumption or natural resources, we must take into account the characteristic of China's huge population. Neither in production nor in living standards can we follow the West in taking the road of "high consumption and large waste." We should have a consumption pattern that suits our national conditions. Before the end of this century, we should mainly study the consumption pattern for the level of a comparatively well-off life. To this end, we need to give correct guidance to consumption and to form, step by step, a lineup of enterprises producing consumer goods that suits the consumption pattern. We should pay attention to the production of energy-saving and durable products that can be used over and over and regenerated. There are many similar questions requiring our thorough study.

7. Issues of the proportional development of the economy, society and S&T. The proportional development of the economy, society and S&T is law. If any country violates this law, it would have many serious problems in addition to a failure in creating comprehensive and sound development. The economic crises, political and social upheaval and spiritual and cultural degeneration of capitalist society can fully explain this issue.

How to ensure the proportional development of the economy, society and S&T is one of the major issues that needs to be considered in development strategies.

At present, we should pay attention to the impact of social factors on economic and S&T development. Along with changes caused by the development of productive forces in economic and social relations, changes are bound to occur in the people's life style and social structure, thus setting forth new demands on social management. At the same time, social development can also cause changes in the people's concept of value. Studying these changes are of great significance in building a socialist spiritual civilization, improving the people's quality and promoting economic and S&T development.

Take the issue of rural and urban development, for example. The development strategy of China's rural areas, especially the channels for the employment of surplus rural labor, concerns the development of China's agriculture and even the whole national economy. We should look for a variety of plans in this regard so we can compare and select the best. Some comrades calculate that by the end of this century China's urban population should account for 25 to 30 percent of the total population, believing that this is the only way to meet the needs of economic development. Some comrades contend that the expansion of the urban population has already become a fairly serious problem; therefore, in the future urban areas should be reduced and a new campaign should be launched to encourage people to go to work in the rural and mountain areas. Aside from these views, there is a plan suggesting that with the increase in the labor

productivity of rural areas, it is necessary to adopt the methods of rural industrialization and of agricultural units running industries. It suggests that in accordance with the needs of economic development, rural areas should form in a planned manner many new townships and small cities, establish their own new-style economic, S&T and cultural centers and gradually realize, as Engels described, urbanized rural areas which have the strong points of both rural and urban areas.

8. The influence of the international environment on China's development. When formulating development strategies, we must study the trends of the world's economic, social and political development, the development strategies of foreign countries and the tactics they might adopt to deal with us. This concerns not only China's foreign trade development strategy but also China's overall development strategy, because when necessary domestic conditions are available and if we use the opportune moment of the international environment, we hasten the progress of modernization. If we fail to do so, we will hinder the progress of modernization. Therefore, questions such as which favorable international conditions we should use and which unfavorable international influences we should overcome should also be conscientiously discussed by us.

Now, our study of development strategies has entered a stage in which we should combine comprehensive study with the study of special subjects. From now on, we should pay attention to combining qualitative and quantitative analyses, combining the study of many academic departments and fields and combining conventional and new methods.

Comrades: Let us work together to make suggestions for the building of a strong, modernized socialist country with Chinese characteristics.

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ECONOMIC PLANNING

ISSUE OF ENSURING FUNDS FOR KEY PROJECTS REVIEWED

Taiyuan JINGJI WENTI [PROBLEMS IN ECONOMICS] in Chinese No 1, 25 Jan 84
pp 31-33

[Article by Hou Xiaozhong [0186 2400 1813] of the Shanxi Provincial Office of Finance: "Elementary Discussion of the Issue of Centralizing Funds Ensure Key Construction Projects"; responsible editor of this article is Zhang Jianwen [1728 1696 2429]]

[Text] In his report to the 12th CPC Congress, Comrade Hu Yaobang clearly pointed out: "To fulfill the strategic goal set for the next 20 years, the state must centralize the necessary funds to carry out key construction projects in order of importance and urgency." However, some localities and comrades still do not fully understand the great significance of centralizing funds to ensure key construction projects. They still proceed from departmentalism and local interests, decentralize funds and carry out repetitious construction. China's present key construction projects are for energy and communications. If energy and communications construction problems remain unsolved, they will affect not only the development speed of the national economy in the "Sixth 5-year Plan" and the "Seventh 5-year Plan" periods but also economic revitalization in the next 10 years and the fulfillment of the strategic goal of quadrupling total annual industrial and agricultural output value by the end of this century. Therefore, we must unite our minds and understanding and give first priority to the issue of centralizing funds to ensure key construction projects.

I. The Importance of Centralizing Funds

In order to fulfill the fighting goal set for the next 20 years and lay a good foundation for economic revitalization, most backbone projects arranged by the CPC Central Committee and the State Council in a planned and emphasized manner throughout the country are energy and communications construction projects. The completion of these projects will provide guarantees and conditions for fulfilling the magnificent goal of quadrupling the gross annual value of China's industrial and agricultural production by the end of this century.

However, an outstanding issue in China's present economic construction is a shortage of funds which affects the smooth progress of energy and communications construction. Energy resources are the blood and communications are the main arteries of industrial and agricultural production. They are major issues of direct bearing on the development of industrial and agricultural production and the improvement of the people's material and cultural living standards. Due to a tight energy supply and insufficient communications and transportation capacity, 20 percent of the nation's industrial production capacity cannot be brought into play. This is a major factor that has been seriously restricting the development of the national economy and the improvement of the people's living standards. To carry out energy and communications construction, we need a large amount of investment. Judging from China's situation, based on the direct construction costs aside from the investment in the facilities of geological prospecting, culture, education, public health and municipal works, the production of per-ton coal requires 180 yuan, the building of a coal mine with 1 million tons of annual capacity requires over 180 million yuan and the construction of a 1 km-long railroad requires over 1.8 million yuan. Therefore, we urgently need to centralize a fairly large amount of funds to ensure key construction projects that focus on energy and communications. This is of great significance in developing the national economy and strengthening the building of national defense.

II. To Centralize Funds, Three Relations Should Be Handled Properly

The economy is the foundation of revenue. Revenue is the comprehensive reflection of economic results. On the basis of China's socialist public ownership of the means of production, we must practice a planned economy and develop the national economy in a planned and balanced manner. This is the superiority of the socialist system. A very important aspect in a socialist planned economy is that revenue must be relatively centralized to ensure key construction projects. This requires that we correctly handle three relationships and determine the relevant quantitative limits.

First of all, we should correctly handle the relationship between construction and living standards. Whether the relative proportion between accumulation and consumption and between construction and living standards is proper in the distribution of the national income is a major issue concerning the development of production and the improvement of the people's material and cultural living standards. In recent years, our party and government have adhered to the basic principle that "first, we need to eat and, second, we need to carry out construction" in accordance with the objective of socialist production, bringing about a marked improvement in the people's living standards. Since 1979, along with the readjustment and restructuring of the national economy, accumulation has been reduced and consumption has been increased, establishing a better coordinated relationship between the two. For example, in 1978 China's accumulation accounted for 36.5 percent and its consumption accounted for 65.5 percent [figures as published]. After the readjustment, in 1981 accumulation roughly became 30 percent and consumption became 70 percent, changing the previous situation of a

serious imbalance in the proportion between accumulation and consumption. As for the question of what is the proper proportion between accumulation and consumption, the financial theory circle has different opinions. Most comrades contend that during the "First 5-year Plan" period when the accumulation rate was 24.2 percent, production development was fast and the people's living standards showed a fairly great improvement. When the accumulation rate reached 36.5 percent, an abnormal phenomenon occurred, that is, production development was slow and the people's living standards did not show much improvement. Therefore, they believe that 25 percent is a relatively proper rate of accumulation. We think that it is better for us to decide on the proportion of the accumulation rate after conducting an overall balance in accordance with the level of production development and the situation of material reserves in different time periods. Judged by our current situation, in order to lay a good foundation for economic revitalization, give due consideration to the continuous improvement of the people's material and cultural living standards and adhere to the principle that "first, we need to eat and, second, we need to carry out construction," the most suitable accumulation rate should be 30 percent. However, we should notice that the people's living standards are still fairly low in general. In some low-yield and afflicted areas, peasants still live in poverty and need help with their production development. Urban residents still have problems with regard to wages, employment, housing and public facilities that need to be solved. However, fundamentally speaking, the people's living standards in both urban and rural areas should be improved only by striving to develop production and increase labor productivity, not by reducing indispensable state construction funds. Otherwise, it would undermine the people's fundamental and long-term interests.

Second, we should correctly handle the relationship between centralization and decentralization. In recent years, after the central and local governments carried out the financial management system of "separating receipts and disbursements and assigning responsibility at various levels," in 1979 China's national income increased 7 percent and its revenue declined 1.6 percent; in 1980 its national income increased 6.9 percent and its revenue declined 1.65 percent; and in 1981 its national income increased 3 percent and its revenue declined 1.93 percent. The proportion of revenue in the national income also declined year after year. It was 32.9 percent in 1979, 29.6 percent in 1980, 27.4 percent in 1981 and 25.5 percent in 1982. Shanxi's national income increased year after year but the proportion of its revenue in its national income also declined year after year--from 26.54 percent in 1980 to 24.33 percent in 1981 and 18.5 percent in 1982. This was mainly caused by poor economic results, a decline in labor productivity, an increase in material consumption and cost of products, poor returns on funds, moneylosing enterprises which are a drag on others and the increasingly heavy burden of financial departments created by granting policy-related subsidies. In addition, some regions and units did not understand the idea of "taking the whole country into account," had a serious tendency toward selfish departmentalism and "put individuals ahead of enterprises and enterprises ahead of the state." They practiced fraud and tried all means to reduce revenues. Moreover, the financial management

system was imperfect, the enterprise profit distribution system had defects, the proportion of profits to be retained by enterprises continued to increase, enterprise receipts increased year after year and local extra-budgetary funds increased very fast. According to statistics compiled in 1981, Shanxi's extrabudgetary funds reached 1.33 billion yuan, amounting to 67.5 percent of the provincial revenue. This caused the decline in state revenue and a shortage of funds urgently needed for energy and communications key construction projects. In order to ensure energy and communications key construction projects and normal expenditures, the proportion of revenue in the national income must maintain the level of 30 percent. It would not be higher than this level, because if it is higher, it would affect the normal production of enterprises and dampen their enthusiasm. However, it should not be any lower either. If it is lower, it will cause enterprises to develop blindly, start projects indiscriminately, violate the state plan, waste funds and fail to ensure key construction projects carried out by the state in a planned manner to expand reproduction. It will affect economic revitalization and the fulfillment of our party's strategic goal. This is the overall situation and the greatest political event. Therefore, we should firmly establish the idea of "taking the whole country into account," ensure the overall situation and correctly handle the relationship between centralization and decentralization.

Third, we should correctly handle the relationship between economic and cultural construction costs and other expenditures. In the distribution of financial resources, we should persist in the distribution procedure of making arrangements first for living expenses and second for production and then using what is left to carry out capital construction. We should not make arrangements first for capital construction and then for other expenses as we did before. We must not attend to one thing and lose sight of another. We must make overall plans and take all factors into consideration. Fixed-asset investment is an issue concerning the direction of development in the production and construction of all sectors of the national economy. It must be guided by the state plan and be subject to the control of a quantitative limit or quantitative warning line. Based on past experiences, in the near future, capital construction appropriations should account for less than 30 percent of the total expenditures and it is imperative to exercise control over the capital construction projects carried out with self-pooled funds. Capital construction projects carried out with state appropriations and self-pooled funds are like two dragons. Without the strict control of a quantitative warning line, they would flood and wash away the Palace of the Dragon King, causing capital construction to get out of hand. How do we control it? First of all, we need to have some kind of limit on the quantity. State appropriations for capital construction must be kept under 30 percent of total expenditures. This conforms to the principle of "first, we need to eat and, second, we need to carry out capital construction." Second, self-pooled funds for capital construction should be combined with the plan and supply of materials under the guidance of the stateplan. They should be distributed or used according to one's capability and a unified plan in

places where funds are most needed by the state on condition that their ownership not be changed. At the same time, we must prevent various banks and trust companies from issuing loans for capital construction projects. Only by doing so can we coordinate the proportion between the distribution of economic and cultural construction costs and other expenditures and achieve a normal development in all undertakings.

III. To Centralize Funds, Effective Measures Must Be Adopted

In recent years, we have witnessed developments in production, a continuous increase in national income and an abnormal phenomenon--a marked decline in the proportion of revenue in the distribution of newly increased national income. The outstanding issue is that our revenue from centralized distribution has declined and our national financial resources have been decentralized. But contrary to this, our extrabudgetary funds have increased continuously over these years, resulting in the phenomena of blind construction, repititious production and competition for raw materials and energy resources, thereby violating the state plan. Therefore, we must adopt effective measures to centralize a proper amount of major construction funds to step up construction of key and backbone energy and communications projects.

1. We must resolutely implement the line and principles set forth at the 12th CPC Congress and the 1st Plenary Session of the 6th NPC, centralize our financial and material resources and carry out construction according to a unified plan in a planned and emphasized manner. This is an objective demand of China's socialist economic development. We should properly increase the proportion of extrabudgetary funds collected for the energy and communications key construction funds. We should guarantee key projects and give due consideration to, or temporarily set aside, general projects. As some central leading comrades have pointed out, "To guarantee some, we need to set aside others." In other words, to guarantee key construction projects we need to make a "sacrifice" in central fields. Only by giving up the part can we make a success in the situation as a whole. This is called "an overall point of view."

2. We should strive to develop production, increase economic results and achieve a greater increase in national income. The 12th CPC Congress pointed out the need to shift all economic work to a course focused on the improvement of economic results. This is a correct principle formulated on the basis of China's past experiences in carrying out socialist economic construction. The Shanxi provincial CPC committee and the provincial government adopted effective measures on a provincial scale to carry out the principle of further readjusting the national economy while focusing on the improvement of economic results and carrying out enterprise consolidation brought about a 13.4 percent increase in total provincial industrial and agricultural output value in 1982 as compared to the previous year, thus reaching the best level in history. In the rural areas, they established and perfected the production responsibility system and thereby increased the total agricultural output value by 25 percent over the previous year. In industrial production, they focused on economic results

and readjusted the lineup, causing the total industrial output value to increase by 12.3 percent over the previous year. However, as far as Shanxi's overall economy is concerned, the situation of poor economic results has not been fundamentally reversed. The average rate of annual increase in national income was 8.8 percent in the "First 5-year Plan" period. It dropped to 4.9 percent during the 1979-1981 period. Many technical and economic targets have not reached the highest levels in history. With regard to industrial economic results, in 1981 every 100 yuan of fixed-asset investment yielded 7.1 yuan of profits, 6.9 yuan lower than the comparatively good historical level; every 100 yuan of funds yielded 15.5 yuan of taxes and profits to be delivered to the state, 5.5 yuan lower than the comparatively good historical level; every 100 yuan of output value yielded 14 yuan of profits, 1.7 yuan lower than the comparatively good historical level; every 100 yuan of output value occupied 40.4 yuan of circulating funds, 25.7 yuan higher than the comparatively good historical level; and the whole staff's labor productivity was 7,082 yuan, 1,162 yuan lower than the comparatively good historical level. With regard to capital construction investment, the rate of projects completed and put into operation in 1981 was 30.9 percent, a decline of 8.1 percent from the "First 5-year Plan" period. The profit rate on the funds of commercial units in 1981 was 5.3-fold lower than the comparatively good historical level and that of supply and marketing cooperatives was 56.9 percent lower. In sum, if Shanxi's economic targets can reach comparatively good historical levels or the nation's average level, Shanxi would be able to make a new breakthrough in the growth of revenue.

Judged from the situations in Shanxi's industrial and communications enterprises and agricultural departments, Shanxi's industry has a solid foundation, an ample energy supply, poor economic results and great potential and lacks countermeasures; Shanxi's agriculture suffers a drought 9 out of every 10 years, its production efficiency is low and the peasants' living standards have not been improved. This explains that although Shanxi's economic situation is not good, it has advantages in the improvement of economic results. This requires us to implement resolutely the spirit of the 12th CPC Congress and shift all economic work to a course focused on improving economic results.

3. We should strengthen supervision and inspection to increase efficiency in the utilization of funds in all fields. In China's socialist economic construction, we should bring into full play the financial functions of all departments at all levels. We should not only do a good job in the management and utilization of funds to increase the results of fund utilization but also strengthen supervision and inspection to help enterprises improve economic results. In production, we should do a good job in technical transformation, practice careful calculation and strict budgeting to prevent losses and waste, reduce production costs by 2 to 3 percent from the current level and use a minimum consumption of labor and occupation of funds to create maximum economic results. In capital construction, we should reduce construction costs by 10 percent and create more output with less input. In the sphere of circulation, we should

establish a link between the production and marketing departments, reduce overstocking and stockpiling, lower costs by 2 to 3 percent and speed up the turnover of funds. In administrative affairs, we should practice careful calculation and strict budgeting and cut down on expenditures. We should broaden sources of income and reduce expenditures in all fields; genuinely continue to increase the rate of returns on funds, the turnover rate of circulating funds and the recovery rate of capital construction; continue to reduce non-productive expenses; increase financial resources year after year; centralize more funds for the state; and create more substantial benefits for the people.

4. We should step up the tax-for-profit reform. We should levy 70 percent income taxes on state-run enterprises and allow them to retain the after-tax profits for their own use, of which production development funds should account for 20 to 25 percent (including replacement and overhaul funds) and welfare funds should account for 5 to 10 percent (including bonus funds). However, we may properly reduce the proportion of production development and welfare funds in those large and medium-size enterprises which have made large profits. We should give tax reductions and exemptions, support and special consideration to those enterprises affecting the national economy and the people's livelihood which have suffered policy-related losses. We should begin levying income taxes on key households, specializing households, 10,000-yuan households, industrial and commercial units run by individuals and enterprises run by educated youth in order to support national construction and realize as soon as possible a fundamental turn for the better in financial and economic situations.

5. We should establish anti-waste legislation. From now on, we should subject all projects concerning the building of new enterprises and the investment of fixed assets to repeated feasibility and technological studies. We must consider issues concerning economic results, environmental pollution and the occupation of farmland. If any project turns out to be a policy mistake which has no economic result to speak of or if any project results in waste, serious environmental pollution and damage to the people's health, responsible persons must assume legal responsibility to attain the goal of perfecting the legal systems, accelerating the sound development of the national economy and bringing benefits to the people.

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ECONOMIC PLANNING

TAILOR LIGHT INDUSTRY TO MARKET CHANGES: MINISTER YANG BO

Hebei JINGJIXUE ZHOUBAO [ECONOMIC WEEKLY] in Chinese 12 Mar 84 p 1, 4

[Article by Zou Xiaoping [6760 1420 1627]: "At National Conference for Office and Bureau Directors of Ministry of Light Industry, Minister Yang Bo Says Industry Must Tailor Production to Market Changes. We Must Thoroughly Strengthen Quality Control, Readjust Product Mix, Open up New Areas, Reduce Consumption of Goods, Improve Economic Results, Accelerate Technological Progress and Strengthen Management of Trades"]

[Text] At the Conference for Office and Bureau Directors of the Ministry of Light Industry, Minister Yang Bo said that the production situation for light industry in 1983 was much better than expected. New successes were achieved in all aspects of work. Gross annual output was at 119.07 billion yuan, a 7.3 percent increase over 1982, topping our objective of guaranteeing 5 percent and striving for 6 percent in industrial growth. An outstanding feature of production last year was the widespread high regard for increased production of marketable products in various places. Of products planned by the state and ministry, 21 increased in output value by more than 50 million yuan, for a total increase of 4.36 billion yuan, or 54.2 percent of the entire new increase in output value. Last year, enterprises in light industry achieved a 3.1 percent increase in taxes and profits over the preceding year. The number of loss producing enterprises fell 32.7 percent and the loss figure fell 20.8 percent. Profits for second light-industry collective enterprises increased 10.5 percent, surpassing the production increase; loss producing enterprises fell 35.7 percent and the loss figure fell 44.5 percent. Last year, the steady improvement rate in product quality was over 85 percent; evaluations at the National New Product Exhibition held by the State Economic Commission found that the value of 119 light industry products has reached advanced international levels.

He said that in 1984, the state plan's rate of increase for light industry is 5 percent. Under the premise of stressing economic results, we must guarantee 5 percent and strive for 6 percent, further improve product quality at a steady rate of at least 90 percent, energetically develop new products at a percentage of at least 5 percent of the total output value and make great efforts to reduce the consumption of goods and the expenditure of funds. Energy consumption must drop 4 percent; fixed production costs

in state-run enterprises, 2 percent; and the usage rate of circulating funds, 1.5 percent. The labor production rate for all personnel must improve 3 percent. Capital construction project costs must drop 5 percent, annual losses must be 35 percent lower than last year and losses of a management nature must be basically eliminated; those costs of a policy nature must be reduced as far as possible and at the same time the small number of losses for products in profitable enterprises must be turned around.

Three things must be emphasized in our guiding ideology to achieve the above requirements. First, we must further firmly acquire a concept of wholehearted service for consumers in order to shift to consumer demands and tailor production to market changes. Second, all aspects of work must move to the path centered on improving economic results. Third, we must rely on scientific and technological progress to develop production.

The following must be emphasized in concrete work:

1. Thoroughly strengthen quality controls. We definitely cannot slight questions regarding product quality and variety, since they are related to an enterprise's existence and development, or our responsibility toward consumers. In recent years, the quality of light industry products has somewhat progressively improved, but many are still not good enough. There are very large differences between regions and enterprises for the same product. In bicycle quality, for example, Shanghai's and Tianjin's bicycles are always higher than 96 points but some other regions do not even reach 80 points. Even the quality of some of Shanghai's and Tianjin's famous-brand bikes are questionable; every one is not perfect. To improve product quality, we must first solve the ideological question of regarding it highly and practice strict quality control. All enterprises must set up and perfect quality control organs and rules and regulations, practice strict quality control in the production process and create quality assurance systems.

To improve product quality, we still must practice the policy of encouraging the advanced and spurring on the backward. We must guarantee the priority of raw materials, fuel supplies and funds, technological conditions and other factors to top-quality and brand-name products. We must limit or selectively eliminate production of poor-quality products and those not well received. At the same time, we must implement and practice the State Council's price regulations and set high prices for high-quality products and low prices for poor ones.

2. Readjust product mix and open up new areas for production. Readjustment of the product mix means tailoring it as much as possible to conform to changes in consumption patterns. They must be seen accurately and changed swiftly. We must pay attention to the continuity of new product development, consider the life cycle of a product and, when a product is selling well, think of substitutes for it. At present, we must pay special attention to readjusting the export product mix. The requirements

for light industry enterprises responsible for exports are to work hard to improve quality, lower costs and strive for more exports and foreign exchange for whatever products have firm international markets. Coastal regions in particular must vigorously "push outward." At the same time, we must implement the policy of selling both abroad and domestically, taking new roads and opening up new situations.

We still must break new paths by opening new areas and developing new categories to readjust product mix. While inspecting new types of building materials a short while ago, comrades in charge of the State Council criticized building and hardware products for being of inferior quality. To this end, the ministry decided to draft a plan and organized and allocated resources, selecting Shanghai, Guangzhou and some other areas with good conditions to be breakthrough sites for first settling the complete production and supply of bathroom hardware and appliances in guest hotels and highrise buildings and then of interior furnishings and appliances. About 80 percent of interior furnishings and appliances are light industry products, including decorative hardware, doors and windows, common glassware, enamelware, ceramic goods, furniture, lamps and lanterns, handicrafts, rugs, wall ornaments, electric refrigerators, air conditioners, exhaust fans, acoustical tile, vacuum cleaners and other cleaning implements, plastic and plexiglass goods, kitchen equipment, eating utensils, apparatus used in barber shops and beauty salons, etc., all of which involve 10 or so trades. We must settle the work of complete production and supply and then handle in a direct way the big problems of opening up new areas and developing new categories.

3. Thoroughly reduce the consumption of materials and work hard at improving economic results. Raw materials, other materials and fuel constitute about 80 percent of costs for light industrial products. At present, supplies of these items are rather short. On the one hand, shortages exist, and on the other, high consumption and great waste are common. Currently, there are great differences in the consumption of materials in various light industries, among various products and between advanced and backward enterprises. The least difference is several percent or 10-odd percent and the most is several score or even 100 percent. According to statistics for 120 key enterprises' consumption of major raw materials and fuel, nearly one-half of the 1983 quotas not only did not drop below 1982 figures but even rose. This problem warrants our high regard even though there are a certain number of variables involved. Considering the nationwide bill, a 1.0 percent drop in our consumption of materials is equivalent to nearly 50,000 tons of steel, 80,000 square meters of wood products or over 350,000 tons of standard coal. A 1.0 percent drop in costs would increase economic results by over 700 million yuan. Thus, reducing the consumption of materials for unit goods and reducing costs are important ways to improve economic results. They must be treated as firm quotas.

4. Accelerate technological progress. The technological transformation of enterprises this year must still revolve around key trades and key products and the main direction should be to improve product quality,

increase the designs, colors and varieties of products and to lower the consumption of materials. We must further do a good job of importing technology, giving even greater regard to imports of key equipment and imports of software. In addition, we must use foreign capital, import necessary technology and equipment and put a high regard on imports of foreign scientific and technological talent. We must vigorously adopt international standards. Beginning this year, all products applying to be of national top quality must employ international and advanced foreign standards.

5. Strengthen the management of trades and curb blind development. The problems of duplicate construction and blind development still exist right now in some trades and lax management is one important reason behind them. Blind development of the old "three big desirables" has already become a fact. A lesson should be earnestly learned from this instance. It is worth taking note that there is also a tendency toward blind development of washing machines, electric refrigerators and other things. In 1981 there were only 43 producers of electric refrigerators; the number has jumped to 104, a more than 100 percent increase in the space of 2 years. Duplication has also appeared in foreign technology imports for washing machines and electric refrigerators.

We must practice responsible and necessary management centralization to strengthen the management of trades. We must start from reality, distinguish between different circumstances and coordinate the development of every department and every region in a planned way, conform as far as possible to objective needs and strive for economic results on the basis of thoroughly doing a good job of macroscopic guidance and planning of trades. This year we plan to emphasize and stress the management of trades in the bicycle, washing machine and electric refrigerator trades. Leading comrades of the State Council recently issued an important directive regarding bicycles--that we must firmly support famous-brand products, enlarge batch production, force products of secondary quality off the market and practice closing, suspension, merging and retooling of outmoded factories. According to the spirit of this directive, the State Economic Commission, the State Planning Commission and the Ministry of Light Industry jointly drafted a management plan to expand famous brands and minimize lesser known and inferior brands of bicycles. The ministry also proposed ideas to strengthen the management of the washing machine and electric refrigerator trades. The general idea is to determine a reasonable production scale under unified planning and choose the best from existing factories. The bicycle trades must emphasize the energetic development of famous brands that have been readjusted and combined, minimize inferior and lesser known brands and close or suspend non-selected enterprises. The washing machine and electric refrigerator trades must stress support for the small number of specialized backbone industries that are of good quality and low cost and for large-batch production and force those middle-size and small plants that do not meet the requirements of the market by closings, suspensions, mergers and retooling. We must resolve to select washing machine and electric refrigerator production plants nationwide within this year.

12615

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ECONOMIC PLANNING

JOURNAL DISCUSSES CHOICE OF PLANNING SYSTEM

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[Article by Shen Liren [3088 4539 0086] of the Economics Research Institute of China Academy of Social Science: "Comparison and Choice of Planning Systems"--Written in March 1984]

[Text] Under the established principle of "The Leading Role of the Planned Economy and the Supplementary Role of Market Regulation," we can have various specific plans as to what form our planning system should take after the reform. We should make a conscientious comparison of the various different schemes and then make a prudent choice. The criteria for our consideration are: 1) whether the selected scheme can facilitate giving play to the superiority of the socialist planned economy and whether it can both macroeconomically ensure the overall balance of our national economy and microeconomically give play to the initiative of all the economic "cells" (enterprises and cooperatives) and the vast number of laborers; 2) whether it is suited to the change in our strategy for economic development so that it will provide us not only with the preconditions for the continuous increase in our economic results but also with a stable growth rate for the realization of the goal of quadrupling; 3) whether it conforms to the various current subjective and objective working conditions in our country and whether it not only proceeds from major factors and is feasible in theory, but also proceeds from minor factors and is feasible in practice; and 4) whether it takes into consideration both the advantageous and disadvantages that all schemes inevitably have and whether it has weighed these aspects and not only includes the most advantageous factors but also excludes all but the smallest disadvantages. According to this requirement, these are some of my ideas on some problems that have been disputed in the reform of our planning system.

1. The Authoritative And Democratic Nature Of Planning Policy Decisions

A plan is first of all a policy decision. The policy decisions in economic construction, for example, the direction, goal, key links, speed, proportional relationships of economic development and the steps in implementing the economic plan, are mostly clearly recognized in the process of the formulation of the plan and are expressed through the targets of the plan. The main reason there were errors in our previous plans was not because we failed to take all factors into consideration in our calculation for the striking of economic

balance, but because of the mistakes in our guiding ideology and policy decisions. Therefore, in reforming our planning system, we must look for a way to ensure that we make entirely correct policy decisions and make very few, or no mistakes. We must also turn the making of planning policy decisions into a scientific process.

In order to turn the making of our planning policy decisions into a scientific process, quite a few comrades have stressed that we must safeguard the authoritative nature of our planning policy decisions, adhere to the principle of "coordinating all the activities of the nation like pieces in a chess game," and refrain from letting our policy decisions be made by several departments in a decentralized manner. This is certainly right. Unified planning and unified policies are the two major ways for our state to manage its economy. If our planning policy decisions lack authority, they will be mere scraps of paper, no matter how perfect they are. However, while stressing the authority of our planning policy decisions is, in fact, aimed at ensuring the implementation of the correct planning policy decisions, this cannot ensure that the formulation of the planning policy decisions is itself correct. Many other comrades stress that we must actually turn the making of our planning policy decisions into a democratic process and use democracy as a means to ensure that the process is a scientific one. Thus we will achieve the unity between our ideological line and the mass line. In strengthening the democracy of making policy decisions in our planning system, we should grasp the following:

The first link is democracy in gathering data that forms the basis of our planning policy decisionmaking. The grounds or sources for our planning policy decisions are various kinds of economic, social, scientific and technological information. In a world where information is increasing with every passing day, it is never possible for the brains of a small number of people or for a few departments to vigorously open up the resources of information or to collect, transfer, analyze, synthesize and process the increasingly large amount of information and make appropriate forecasts and plans in the light of that information. Therefore, we must develop democracy, rely on the masses of the people, and pool the wisdom of the masses. During the past few years, our agricultural production has rapidly entered a stage of all-round and lasting growth. This is precisely because we have respected the creativeness of the masses of people, adroitly guide our actions according to circumstances, and pressed forward with an indomitable will. Compared with agricultural production, the production and development of certain industrial consumer goods always falls behind the demand of the situation. Even if we overfulfilled our production quota by 100 percent, we would still fail to meet the demand. This is because we do not pay sufficient attention to the opinions of the market and the basic-level units. In our future planning system, we should make clear that all major policy decisions should be based on sufficient information and should be discussed and studied by the relevant departments, areas, specialists and people. We must make them conform with reality and reduce the number of errors.

The second link is democracy in the procedures of planning policy decisionmaking. The reliability of the grounds for making planning policy decision also depends on thoroughness in the decisionmaking procedures. During the period of

the first 5-year plan, we adopted the method of "having the plans discussed level by level from the top downward and from the bottom up several times." This was an effective method. However, later, the method existed only in form. It is necessary to restore and perfect this kind of democratic procedure. For it is not only conducive to exchanging information related to the state of affairs between various levels and increasing the common language between them in the process of making planning policy decisions, but it also facilitates exposing and then solving contradictions and turning the process of decisionmaking into a process of coordinating the units at all levels and enabling all of them to really understand these decisions. During that process, it is also necessary to fix the procedures of making of our planning policy decisions by law, which stipulates that the organizations of power at various levels should examine these decisions, listen to the reasoning behind them, ask questions on them and make revisions. They will approve these decisions and hand them over to relevant departments for implementation. In this way, we will link democracy with our legal system and further perfect the procedures of making our planning policy decisions.

The third link is democracy in implementing our planning policy decisions. After we have made our decisions, we should give the units that implement these decisions appropriate power to maneuver, or at least power to correct errors in decisions in the process of carrying them out. For although the plans have been formulated on relatively sufficient grounds and have undergone relatively thorough procedures, these plans are still only relatively correct and it is impossible for them to absolutely conform to objective reality. In carrying out the plans, through feedback of information, we will discover where the plans do not conform to reality. We should allow people to make prompt readjustment in these plans. Except for the power to make readjustments that involve the whole situation, which must be centralized in the hands of the state, we should decentralize the power to make partial readjustments in order to cope with the thousands of changes in the situation. Otherwise, there will be delay and errors. During the past 2 years, there have been very great differences between the planned and actual output of some products. This shows that we must grant our departments, areas, and basic level units some power of correction and maneuver. On the other hand, some products have been stockpiled in large quantities or are in short supply for a long time. In many cases, this has been caused by the over rigid centralism of our plans and the delay in the feedback of information and correction of our plans.

Usually, the authoritative nature of the planning policy decision is unified with its democratic nature. If, on the basis of unity of the two natures, we want to gradually and actually make the planning policy decision a scientific process, it is necessary and possible to establish a responsibility system geared to the formulation of plans at various levels and various departments. Each of them takes charge of its own post and is responsible for its duties. The lower level will be responsible to the higher level and the higher level will also be responsible to the lower level. In connection with the responsibility system, we should implement the planning contract system between the state and enterprises and between departments and areas at various levels, and clearly define the responsibilities of both sides by contracts. This is also a good form for unifying the authoritative and democratic nature of planning policy decisions.

2. The Breadth And Limits Of The Scope Of Our Plans

Secondly, a plan means administration. However, how big should the scope of administration be? Should it be wide or narrow? At one time in the past, we wanted to administer everything, but the result was that we could neither administer everything nor administer satisfactorily. Now, we understand that we should administer some things and should not administer others. We must be clear on implementing the principle of "administering the major things and letting go the minor things." This is a great stride in our process of cognition. As to which yardstick to use to make a clear distinction between the demarcation line of things for which plans should be made and things for which plans need not be made, we should make careful consideration.

Some comrades hold that since ours is a socialist planned economy, the section for which plans should be made must be the "key link," while the section for which plans need not be made is merely a "minor link." Generally speaking, this is correct. The scope of our planning should cover a certain wide scope. This is determined by the universal interrelationships between various economic activities. It is also a requirement for striking a macroeconomic balance. However, if we consider the needs, we will often be inclined to administer even more things. As a result, it is hard to avoid the practice that increasing numbers of things will be administered by our planning until everything is included, or forced into our plans. This does not conform to the policy of "letting go minor things."

It seems that the so-called requirements in our plans are actually the requirements for striking an overall balance and are different from the requirements necessary for ordinary economic management. The scope of the latter is quite wide so we must adopt various methods and forms to administer it. What our plan administers is mainly within the scope of major proportion and major balance, especially the proportion and balance between accumulation and consumption, between two major categories, agriculture and light and heavy industry, and between the allocation and use of manpower, material, and financial resources. In the past, and particularly in recent years, we sometimes lost control over our accumulation rate, accumulation funds and the scale of fixed assets investment, and sometimes, we lost control over the consumption funds, the purchasing power of social commodities, and the total wages which include the bonuses and subsidies. It showed that we failed to administer the major things. From now on, we must strengthen our planning management in these spheres and properly substantiate the scope of our plans in order to administer these major spheres satisfactorily. For the sake of administering these major spheres, we must also use our plans to manage the means of production and consumer goods that are vital to our national economy and the people's livelihood and to administer some large and medium-sized backbone enterprises that are vital to our overall situation.

It seems that in planning management what is more important is that we must not only talk about the needs but also talk about the possibilities, and that we must face squarely our own subjective and objective reality, and adhere to the principle of doing only what we are capable of in the scope of planned management. The precondition and basis for implementing our planned economy

is socialized mass production and the public ownership of means of production, but the degree of socialization and commercialization is still low. From the aspect of the public ownership of means of production, the level of socialization is still low. We have done planning work for 30-odd years, but the level of our work is still low. Factors such as these cannot help but restrict us when we define the scope of our plans. Besides, our actual plans still have quite a few uncertain factors. For example, changeability in weather in our agricultural production, our achievements in prospecting for natural resources, the breakthroughs made in developing science and technology, the turbulence in foreign trade markets and changes of fashion in the consumption pattern of vast numbers of people have all caused our planning administration to have both controllable and uncontrollable aspects. Therefore, in defining the scope of our planning we should not only pay attention to its wide range but should also pay attention to its limitations. We should not administer what we cannot clearly define or administer.

A weighing of the advantages and disadvantages proves that it is better to administer a selected small number of things satisfactorily than to administer a large number of things indiscriminately and end up by being unable to administer any of them. As long as the major proportional relations are harmonized and the major balance is achieved, no big problems will crop up. The opposite of this would be a failure to distinguish between major and minor aspects, grasping minor ones and neglecting major ones. In our actual work, it will do us no harm to fix certain necessary quantitative proportions. For example, we could control only 70 percent of the output of products and enterprises and decontrol 30 percent of them. However, an appropriate qualitative demarcation line between what needs to be controlled and what need not be controlled and between areas of control and decontrol is even more important. The principles of control and decontrol and the standard and proportion of control vary with different plans, such as industrial plans, agricultural plans, production plans, circulation plans, capital construction plans, technological transformation plans, materials and goods supply plans, financial and credit plans, population plans, labor plans, social plans and scientific and technological plans. Of course, decontrolling minor things in our planning does not mean that there will be no control whatsoever over them. On the contrary, it means that we will use other methods to control and regulate them and keep them within the general orbit of our planned economy.

3. The Centralized And Multilayered Nature Of The Power Of Planning

Having decided the scope of control of our plans, we should next decide who should be in charge of the important content of the planning system; in other words, we should decide the division of labor and cooperation concerning planning power between the state and the enterprise, between the central and local authorities, and between departments and areas. This is the basic form of the structure of our whole planning system. It is very difficult to give a concrete definition of the principle of "centralizing major powers and decentralizing minor ones" and "drawing up plans in a unified manner and administering the implementation of the plans level by level." As a result, this has become a focal point of prolonged disputes.

Quite a few comrades have stressed the centralized and unified nature of the planning power and there is nothing wrong in this view. The major power related to the striking of the overall balance must be centralized in the hands of the state so that we can take the whole situation into consideration, take account of both past and future development, satisfactorily handle the relationships between the whole situation and parts of it and between long-term and immediate interests, and ensure the implementation of the strategy for the development of our entire economy. At present, there is a tendency of failing to centralize the planning power that must be centralized. This has led to the dispersion of our financial and material resources and is detrimental to our economic readjustment and to ensuring the construction of key projects. However, stressing centralism and unification by no means signifies a negation of the necessary and appropriate decentralization of our planning power. In a sense, when we adhere to necessary centralism, we should make even greater efforts to administer things level by level.

Some comrades hold that in administering planning power level by level, that two levels are enough, namely the state (including its departments) and the enterprise. They hold that local authorities (including those in our provinces, municipalities, and regions and in the cities and counties under them) should not be in charge of planning our economic development because this will strengthen division between areas and aggravate the malpractice of "local areas forming independent systems" and of pursuing "big and integrated" and "small and integrated." These comrades overlook the complicated nature of our national economy. The big system of our national economy is formed by multiple layers of subsidiary systems in accordance with a certain structure. Our planning system must be adapted to this multilayered and orderly structure. It should not be in conflict with it. Facts have proved that the national balance is a great lever. If this balance is not realized in the balance in various trades and areas, it will be impossible for us to achieve this major balance and there will still be imbalance of various kinds. Local balance is by no means something we can dispense within, even less something that only plays a negative role and never plays a positive role. Ours is a large country where regional balance is irreplaceable. For example, in drawing a general plan for the development of our economy, society, science and technology, the state can only indicate the direction while grasping the major affairs. A large amount of organizational work has to be left to the localities. When every trade has formed its plans, it is up to the localities to form horizontal links between different trades, thus enabling them to closely cooperate with one another. After a plan has been formulated, the administration of local authorities is indispensable process. Take our industry as an example-- throughout our country, there are about 400,000 enterprises, of which central departments directly or indirectly administer only a few thousand, and there are tens of thousands of products of which they administer only about 1,000. We depend more on the localities for the balance in our agricultural and [word indistinct] production, supply and demand in our market, general education, culture and public health, labor and employment and urban and rural construction. Moreover, it is inadequate to rely on the provincial, municipal, and regional level. We should strike a balance level by level from the top down to the very cells or our economy and society. Of course, this kind of balance should be

an open one instead of a closed one. Even if we have paid attention to satisfactorily formulating a plan for each trade and plans for the economic zones centered on large cities, we will still be unable to dispense with local plans and the administrative regional plans mentioned above.

Because of the difference in the method of handling the planning power, planning systems are divided into two different classes, namely, that of centralization of power and that of decentralization of power. Socialist planned economy has [been] described in the past as a type of system with centralization of power. This is not an accurate view. In view of the national economy as a large multilayered system, there must be a planning system in which there is both centralization and decentralization, and centralization and decentralization of power are integrated. At present, we are still at a stage where the economic readjustment has not yet been completed, therefore, we cannot dispense with the above-mentioned principle when we stress centralization. From a long-term point of view, only by correctly handling the relationships between the centralization and decentralization of the planning power can our whole economy become an organic entity filled with motive force and vitality.

4. The Mandatory And Diversified Nature Of The Forms Of Plans

Having solved the problems of who should administer our plans, the next problem is how are we to administer them. In this area, there is the difficult problem of what forms of planning we are to adopt. In the past, we thought that all plans were mandatory and should be compulsorily implemented, otherwise, there would have been no point in having plans. Now, we have realized that there should not be only one kind of plan and that in addition to mandatory plans, there are also guidance plans. However, people differ in their views on the value and criteria of classification concerning these two kinds of plans.

Quite a few comrades emphasize mandatory plans and hold that these plans are sure to be implemented and are, therefore, most effective. Thus, they hold that mandatory plans should be the chief and basic form of our plans and that all the targets vital to our overall balance should be mandatory. They have good reason for holding this view. Particularly, under the present situation, where we have not yet regulated our economic relations, we have to rely on mandatory plans to ensure the implementation of many economic and planning policy decisions. However, certain conditions are necessary in implementing mandatory plans. For example, first, the targets should be fixed through striking a balance and there should be certain arrangements to ensure the achievement of these targets. Second, we should not only start from the whole situation and the long-term interests, but should also take into account partial and immediate interests and thus make it easy for the targets to be accepted by the units that implement the plan. Third, if there is any change in the situation, we should promptly readjust these targets, otherwise it will give rise to losses or be detrimental to the striking of a balance. It was mostly because of failing to meet the above-mentioned requirements that, in the past, some of our mandatory plans failed to play a mandatory role and could not be fulfilled in the end.

Guidance plans are a new form of planning management. Quite a few comrades have affirmed the advantages of these plans and there is some justification for this. Guidance plans are not only based on the need to strike a balance, but also take into account the actual situation in departments at various levels and even in various units and allow readjustment in the light of the change in times and local conditions in order to achieve a unity between micro and macro factors. They are both authoritative and democratic, can be applied over a relatively wide scope and embody the common demand for centralized planning and management level by level. Some comrades do not have confidence in guidance plans and have asked: "What should we do if the lower levels do not implement these plans?" We should conscientiously analyze the causes for nonimplementation. If it is because the implementing units are guilty of departmentalism or because these units hold that there is a contradiction between the plans and their partial or immediate interests, we should solve the problem by means of ideological education and economic policies. If it is because the targets are impractical, because there is imbalance between production, supply, and sales and between labor and financial resources, or because the situation has changed, we should allow readjustment in these plans. Otherwise, it will be impossible to implement them. In fact, similar problems also exist for our mandatory plans.

In our actual work, we have found that there is no absolute distinction between mandatory and guidance plans and there are many intermediate, transition, and combination forms. This shows the diversified nature in the forms of planned management. For example, state plans only fix general targets for the output and allocation of rolled steel, machine tools, cotton cloth, paper and other products. However, there are millions of varieties, specifications, designs and types of these products which have to be decided by industrial, commercial, and materials and goods departments and enterprises after repeated matching, recalculation, and efforts to make them concrete. Thus these targets are no longer those of the original mandatory or guidance plans. Even for products with relatively few varieties such as automobiles, tractors, bicycles and refrigerators, it is often difficult to strike a thorough balance between production, supply, and sales in accordance with the targets of the state plans. Therefore, in implementing state plans, we should decide the amount of production and sales in the light of demand in the market or in the light of the energy and raw materials available. In practice, the actual results often differ greatly or slightly from the planned targets. In the past few years, there were not enough tasks for our machine-building industry, therefore, the relevant departments found it difficult to make arrangement for their plans and allowed the enterprises to find buyers for quite a few of the products. The enterprises signed contracts with units who needed the products, and then drew up plans on the basis of these contracts and through balancing calculations. They organized their production in accordance with these plans. This was another form of planning, which had some characteristics of both mandatory and guidance planning.

Different assessments of mandatory plans and other diversified forms of plans have given rise to various kinds of tentative ideas on the reform of our planning system. Those who advocate mandatory plans and who suggest that mandatory plans should cover more than 50 or 70 percent of our industrial output

value, have designed some planning systems that are too rigid; while those who advocate guidance plans and who, for example, uphold the view that we should gradually reduce the scope of mandatory plans and expand that of guidance plans, have designed some planning systems that tend to be too flexible. Because the major shortcomings of our previous planning systems were too much rigidity and too little flexibility, in reforming our planning system in the future, we should pay attention to the adoption of diversified forms and to increasing its flexibility. Maybe this will be more advantageous.

5. Administrative And Economic Nature Of The Means Of Planning

As with the question of how we are to administer our plans, there is also a question of what means we are to use. Generally speaking, there are administrative means, legal means, social means and economic means (some people call the former three, administrative means). None of these methods are dispensable. However, people's views on them actually differ.

In our planning system, we must allow both administrative and legal means to play their role. This is not only true at present when our application of various kinds of economic means cannot help but be restricted because we have not yet regulated our economic relations, but is also necessary in the future because of the objective existence of the contradictions between the interests of the whole situation and partial interests and between long-term and immediate interests--contradictions which we cannot entirely satisfactorily handle if we rely on economic means alone. However, compared with economic means, administrative means must after all be only supplementary and must only be used sparingly. We must be on our guard against using them indiscriminately. Our goal is to combine these means. Some comrades think that administrative means are most effective while economic means do not always work and have side effects. This is not a fact. For a long time, we required the development of diversified undertakings in our agricultural sector, but met many difficulties and made slow progress. During the past few years, we adjusted the purchase prices of our industrial crop and at the same time adopted other economic means. As a result, we brought about quick effect. Our peasants said: "Orders do not work as well as policies." They used these very words to describe the situation.

Economic means have rich content. Plans are themselves economic means and require people to develop the economy in a planned manner and in accordance with economic laws. However, they must be combined with other economic means. Otherwise, they will go against other economic laws and become purely administrative means. It is precisely in this context that we require that both our mandatory and guidance plans must consciously apply the law of value and use economic levers such as prices, taxation, and credit. It is also in this context that we regard the reform in our planning system as the key to our economic structural reform and require that reform in other aspects synchronize with the reform in our planning system. Therefore, while reforming our planning system, we must correspondingly carry out reform in other areas, particularly reform in our pricing system and in our price management methods. When we match these reforms, the relations in the various aspects in our economic system will be smoothed. Requiring the restriction of the role of the law of

value and meeting the requirements of planned economy before this aim is achieved is often merely a subjective desire. The objective fact is the irrational price system restricts the implementation of our plans and make us do things against our will.

In addition to correctly making a distinction between regulation by planning mechanism and spontaneous regulation by market mechanism, the key to properly handling the relationship between planning and marketing lies in consciously applying in a planned manner the law of value and economic levers such as prices. This also means making the market mechanism serve our planned economy and has quite extensive content. The market mechanism has permeated all activities. The more developed the production, the more important the circulation of products and the less should we neglect the market mechanism. As commodity production and exchange continue to develop in our rural areas, our understanding must catch up with the changes in our situation. For example, as our rural reform continues to deepen and our rural agricultural and sideline production continues to develop, "two households" and "one combination" have risen as vigorous new forces and demand the free circulation of labor force, technology, and agricultural and sideline products. This has quite great repercussions and has greatly inspired people to carry out reforms in our urban industrial and commercial enterprises. Under the socialist system, labor is not a commodity. However, will the labor force which is circulated freely under the guidance of our plans, form to a labor market on a certain scale? In the past, the state finance and the state banks managed the revenue, expenditure, deposit and loan of funds in a unified manner and thus controlled our funds. Now a portion of the funds is allowed to circulate freely. Will this give rise to a money market? The free circulation of technology includes paying compensation for the transfer of technology and setting up a patent system. Will this give rise to a market for technology? When we conduct reforms in our planning system and the whole economic system, we cannot help but consider these new trends and cannot help but give more consideration to the questions of how are we to apply the law of value, market mechanism, and economic means under the precondition of adhering to our planned economy.

Some comrades hold that the law of value has some side effects; therefore, we should neither neglect it nor use it too much. This requires us to weigh advantages and disadvantages and strive to profit by the advantages and avoid the disadvantages. For example, in reforming the relations between the state and the enterprise, we plan to achieve, through "substituting taxes for profit delivery," the aim of turning most of our medium-sized and small enterprises into independent accounting entities that are solely responsible for their profits and losses, and implement a system of responsibility for profits and losses in most of our large enterprises. Then, our enterprises should show greater concern for their own interests and it is possible for them to adopt the management policy of "doing more work for more profit, less work for less profit and no work for no profit," when they accept the planned tasks. However, we should not hesitate in carrying out the reforms because of the possible effects of the reform. That will be a practice of refraining from doing something necessary for fear of a small risk. On the contrary, we should, at the same time, reform our price and taxation systems in order to resolve these

contradictions. By so doing, when we have awakened the internal vitality in our enterprises, we will be able to guide them in giving play to their initiative in accordance with the requirements of our plans. Another example is that when we apply market mechanism, we should allow and encourage an appropriate extent of competition. During the past few years, when signs of a transition from a seller's market to a buyer's market emerged, through competition, we improved the quality of quite a few of our light and textile industrial products, increased their variety, and reduced their costs--thus giving rise to an unprecedented new situation. However, there also emerged malpractices such as blind production and duplicated construction. Similarly, we should not refrain from doing something necessary for fear of small risks and we should adopt diverse measures to ban the investment not stipulated in our plans and encourage the practice of using the existing equipment to rationally transfer into the production of other products and take part in the competition. Thus we will enable our enterprises to consciously adapt themselves to the demands of the market. Appropriate competition may bring about some losses, but its benefits in promoting the development of production and an increase in economic results more than compensate for the losses. Weighing the benefits and disadvantages in this manner proves that the side effect of the application of market mechanism is after all only a side effect, and we should not give up big benefits for small disadvantages.

To sum up, the comparison and choice related to the above-mentioned question is, after all, a question of whether we should adhere to the major orientation of enlivening our economy. Of course, we must make concrete analysis, should not blindly pursue an enlivening of our economy, and should prevent the occurrence of disorder in enlivening our economy. However, the chronic malady in all our previous economic systems was indeed excessively rigid control, which deprived our enterprises of vitality, made our circulation less lively, and caused our plans to lack flexibility. Now, some comrades think too much about control and too little about enlivening in carrying out economic reforms. They start from control instead of decontrol and are thus too prudent and lack creativeness. We should persist in the major orientation of enlivening our economy, make up our minds to tackle and overcome difficulties, and thus enable our socialist economy to display its unlimited vitality and its matchless superiority!

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ECONOMIC PLANNING

ROLES OF PLANNING, MARKET REGULATION DISCUSSED

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[Article by Gui Shiyong [2710 0013 6978] of the Policy Research Office under the State Planning Commission: "Several Questions on Correctly Understanding the Principle of the Leading Role of Planned Economy and the Supplementary Role of Regulation by Market Mechanism"--written in March 1984]

[text] Ensuring the leading role of the planned economy supplemented by regulation by market mechanism is one of our basic principles in the restructuring of economic systems. Correctly understanding this principle and searching for concrete ways of implementing it are of vital importance in ensuring the sound progress of the restructuring of economic systems, particularly the planning system.

I

The principle of ensuring the leading role of the planned economy supplemented by regulation by market mechanism was put forward by the party Central Committee after summing up positive and negative experiences in China's economic construction in an all-round way. It is the product of the integration of the basic Marxist principle on the planned development of the socialist economy with the realities of China's construction. It is also an important basis for establishing socialist economic and planning systems with distinctive Chinese features.

After scientifically analyzing the basic contradictions in capitalist societies and the trends of their development, Marx and Engels predicted that the planned economy based on the public ownership of the means of production would be practiced in socialist societies. According to the outline drawn by Marx and Engels, socialist planned economy was to be realized through direct planning which centralized all economic activities. The prerequisites were: 1) Socialized production is highly developed and all the means of production are owned by the society, 2) commodity production and the exchange of commodities have been eliminated; and 3) using labor coupons as the medium, to each according to his work is practiced in society and among the laborers, and there is no need to make use of the relations between commodities and currency.

Due to historical reasons, the socialist revolution triumphed first in countries where the productive forces were underdeveloped, even backward. Thus, the socialist system established in these countries was a far cry from what Marx and Engels had outlined. To begin with, there were two different forms of public ownership, with the individual economy and other economic sectors being operative within given limits. Secondly, commodity production and the exchange of commodities still existed. Lastly, the principle of to each according to his work not only had to be practiced among the laborers, it had to be practiced in enterprises owned by the whole people. Under such circumstances, what should we do to practice the planned economy and ensure the planned and proportionate development of the national economy? This was an important task that confronted the proletariat after it had seized state power and established the system of public ownership of the means of production.

For a long time, we accepted the theory and method put forward by the Soviets in the 1950's, that is, to practice the planned economy through centralized and direct planning as Marx and Engels had envisaged. In the light of China's conditions, Comrade Chen Yun pointed out as early as 1956 that planned production was primary and that free production should only function as a supplementary principle and a measure for implementation. However, this was not given much attention and was not put into practice. Influenced by the "leftist" guiding ideology, we did the very reverse by pursuing a system of ownership that was "large in size and collective in nature" and by stressing the need to exercise complete and thorough control in planned management. Practice shows that this method of running the economy by means of unitary and direct planning which makes no use of market regulation has two major shortcomings: First, it fetters the enthusiasm and initiative of the enterprises, so much so that they ignore market needs and technological progress. Second, because there is always a gap between planning and reality, some products are overstocked while others are out of stock; it also results in the fact that some products are lacking in variety and are produced in smaller quantities. The outcome is not conducive to improving the efficiency and results of production and operation in the enterprises, or to bringing about the proportionate development of the national economy. This tells us that we must apply and develop the basic tenets of Marxism according to actual conditions, restructure the system of planning, and establish a form of planned economy that conforms to China's realities.

How should we go about it? The basic principle is to ensure the leading role of the planned economy supplemented by regulation by market mechanism. This principle calls for the tackling of two interrelated tasks: 1. While ensuring the leading role of planned production and circulation, we should let a part of production and circulation be regulated through the market, that is, let the law of value spontaneously play a regulatory role, 2. While enforcing mandatory planning in regard to major economic activities and enterprises, we should enforce guidance planning in regard to the bulk of general economic activities, making a special effort to use such economic levers as pricing, taxation, and credits in guiding the enterprises to actively fulfill the state plans.

So, we have three forms of economic management, namely, mandatory planning, guidance planning, and regulation by market mechanism. The first two fall into the category of planned management, while the last serves as a supplement to the planned economy. We cannot say that market regulation is a form of planned management, just as we cannot say that mandatory planning, particularly guidance planning, is a form of market regulation. Here, we must clearly distinguish making use of such economic levers as pricing, taxation, and credits in achieving the planned targets and making dynamic use of market feedbacks in this process from spontaneous market regulation permitted by the plan. Mandatory planning is binding and must be fulfilled once the tasks are assigned to the enterprises. But the state must also take market supply and demand into full account and be reasonable in fixing prices and tax rates so as to give the enterprises economic encouragement in implementing the plans. Guidance planning is not binding and is only meant to give the enterprises some points of reference. The state chiefly guides the enterprises in fulfilling the plans by economic means and only resorts to administrative measures when necessary. The use of economic levers or market mechanisms to varying degrees under these two situations is aimed at better fulfilling the requirements of a specific plan. Unlike these, the part covered by market regulation is not planned. The production and circulation of these kinds of products are regulated by price fluctuations in the free market, or we may say that they are regulated spontaneously by the law of value. Of course, it is also different from the kind of entirely free market regulation in capitalist societies because it is subordinated to planned production and circulation. Its scope is defined by planning, and its activities are controlled by state policies and decrees and by industrial and commercial administration. Here, the planned economy plays the leading role. The part covered by market regulation merely supplements the planned economy; it is subordinate. This relationship between the principle and the subordinate cannot be reversed. Provided that the leading role of planned production and circulation (including mandatory planning and guidance planning) is ensured, the national economy as a whole will remain a unified and planned economy even if the production and circulation of some products, primarily small commodities, are not covered by planning; just as the presence of the individual economy within certain limits will not affect the fact that China's economy no longer assumes the form of unitary and mandatory planning. State planning does not cover the entire economy; it only covers the major sectors. The proportionate development of the national economy is made possible by striking an overall balance between various economic plans and by ensuring the supplementary role of market regulation, and not merely through planning. This represents a major reform of the original economic and planning systems and is a creative development of the Marxist principle on the planned growth of the socialist economy.

The practice of this system essentially means the correct handling of relationships between planning and the market in the socialist economy, and between administrative and economic means in planned management. Its biggest merit is that it can combine the state's centralized leadership with the initiative of the enterprises, and can combine the unified nature of social production with the flexibility of individual sectors. This will enable us to make the development of the national economy centralized and unified as well as flexible and diversified, and to achieve good social and economic results.

Will the practice of this system weaken the centralized leadership of the state and the role of planning in social production? No. The reason is that major economic activities and enterprises are still covered by mandatory planning. In this way, the state still directly controls the economic lifelines of the entire economy and has the strength to make use of economic levers so that the price system and the tax and interest rates can serve as tools for attaining public interests and planned targets. On the other hand, because this enables the state to free itself from much of its day-to-day work and to concentrate on studying important economic activities that have a vital bearing on the whole situation, planned management will become more scientific. Besides, the active dynamic role played by the enterprises can also make up for the inadequacy of the state plan. This, planning for the economy as a whole will be stronger than before.

Will the enthusiasm of the enterprises still be fettered and will the malpractices of bureaucratism and arbitrary orders still be found in economic management when major economic activities and enterprises are covered by mandatory planning? This requires concrete analysis. The important thing is to see whether planning is scientific. When scientific planning is transmitted to the enterprises in the form of a mandatory order, it will only restrict blind actions and will not fetter the enthusiasm of the enterprises. Unscientific planning is a kind of blind action in itself. Even if it is transmitted in the form of guidance, it will create loss and will dampen the enthusiasm of the enterprises. It is impossible for us to subordinate all economic activities to state planning and regulations. If we insist on doing this, we are bound to depart from reality and find ourselves engaged in planned blind actions. However, the enforcement of mandatory planning where necessary and where possible will create the conditions for us to avoid major blind actions and persist in planning.

Of course, the system of mandatory planning itself also calls for major reforms. First, it should be bound by necessity and possibility. We must break free from the traditional ideas that mandatory planning is the only form of planned management and that it is always best to carry out mandatory planning. Second, we should give those enterprises covered by mandatory planning the necessary power of management so that they can better implement the state plan according to actual conditions and will have the necessary financial resources to reform their production techniques as well as management and operation. Third, it is necessary to establish necessary links between the results of operation of enterprises and their material interests. In order to give the enterprises greater incentive and motivating force in reforming their operation and management, enterprises that are successfully run should be able to secure appropriate benefits while making more contributions to the state, and those that are poorly run should receive less benefits. Fourth, while resorting to administrative means to implement the plans, we should pay attention to making use of the economic levers to give the enterprises encouragement in fulfilling the plans. Fifth, we should improve the procedure and method of mapping out plans, strengthen the study and forecasting of market supply and demand as well as the trend of changes in this regard, earnestly solicit the opinions of various quarters regarding the plans, be more scientific in planning, and so on.

One theory holds that the planned economy should be such that matters pertaining to the macroeconomy are regulated by planning and matters pertaining to the microeconomy are regulated through the market. Under this pattern, the state plan only covers policy decisions that will affect the economic situation as a whole. The enterprises are free to decide what and how much they should produce and to whom they sell their products according to their own interests and according to the market situation. This is called "decisionmaking by levels." How, then, should the macroeconomic decisions of the state be implemented in the microeconomic activities of the enterprises? With the help of economic levers, that is, with the help of pricing, taxation, and credits, the policy decisions of the state are to be translated into economic signals, and these signals from the market will guide the enterprises in carrying out the policy decisions. Thus, this theory is in favor of abolishing, at least in principle, mandatory planning, maintaining that this is the criterion for judging whether or not the reform of the economic systems is resolute and thorough. From the theoretical and practical point of view, this concept and method merits study. 1. With this pattern, the key to the realization of planning is that the state can control the economic levers and make them reflect the requirements of the state plan. But how can the state do this in the absence of a powerful material force? 2. Price and other economic levers can only reflect the trend of what should be encouraged and what should be restricted; they cannot indicate the exact quantity, still less fix specific quotas for particular producers or operators. Why should we rely on this pattern to fulfill those tasks which can be specified by the state? 3. The basis for this pattern is that the enterprises can decide on the priorities and tasks of production and operation according to their own interests. If the state does not have direct control over the economic lifelines and does not have the necessary material strength, how can we ensure that the enterprises will subordinate their partial interests to the overall interests? Thus, if this pattern is put into practice in a big country like ours, things will get out of control if we fail to do a good job of it. We will find it difficult to implement the plans formulated by the state, and competition between enterprises which take their own partial interests as the criterion will become dominant. This will lead to further blind actions and anarchy.

Another theory holds that targets in terms of value should be regulated by planning and targets in kind should be regulated through the market. For example, the state will only control the distribution of national income by means of planning. It will fix the ratio between accumulation and consumption, which will then be broken down and assigned to various enterprises at the grassroots level. Control over this will be very strict. The enterprises are free to decide on the varieties and quantities of products to be produced after taking the market situation into consideration. The justification for this theory is that although the use value is varied and cannot be determined by a single social core, targets in terms of value can be centralized because they are comprehensive. By controlling the ratio of the magnitude proportions between accumulation and consumption and between the production of capital and consumer goods. In this way, we can more flexibly and realistically decide on the proportions for goods in kind according to the market situation. This is not likely to cause major problems. This theory is quite reasonable. A state plan should be more concerned with targets in terms of value than targets in

kind. But it is not practicable to draw a hard and fast line between targets in term of value and targets in kind and between the management of funds and the management of materials, and to remove targets in kind from the state plans. Actually, it is very difficult to distribute the magnitude of value without the necessary guarantee of goods in kind, and the supply and demand of goods in kind will lead to changes in price. Besides, because the enterprises only care for their own interests and because the price and profit levels of various products vary greatly and constantly change, they are bound to complicate market relations. As a result, it is very difficult to ensure the production and exchange of goods covered by market regulation. The distribution of value according to the interests of the whole situation will also be upset. We may perhaps sum up the whole matter in this way: Should the state exercise planned control over prices under this pattern? If the prices of important products are still fixed by the state, then price control is bound to result in some kind of control over goods in kind. This is an objective law. If prices are spontaneously regulated through the market, it will be very difficult to realize the planned distribution of the magnitude of value. This is actually happening on a local scale under the existing system. For example, the practice of raising the prices of capital goods has brought about the devaluation of investment. Theoretically speaking, it is not very logical to exercise planned control over distribution and let production and exchange be regulated through the market.

Unlike the two theories discussed above, we do not draw the line between regulation by planning and market regulation according to the differentiation between the state and the enterprises, or between value and use value. What is to be covered by planned management and what is to be covered by market regulation is determined by economic activities (the production, distribution, and circulation of products) and by the roles played by the enterprises that are engaged in these activities in the economy as a whole. In planned management, further differentiation is made to determine what is to be covered by mandatory planning and what is to be covered by guidance planning. In our outline, we must not only exercise strict control over macroeconomic matters by means of planning. Even major microeconomic activities that have a direct bearing on the macroeconomy must be controlled by planning. In addition to targets in terms of value, targets for major goods should also be controlled by planning. Under this precondition, the microeconomic activities of many enterprises and the targets in kind for ordinary products are covered by guidance planning and market regulation. Of course not all important products or activities of major enterprises should be covered by direct planning. The extent and proportion of control are to be fixed according to circumstances. For example, grain and cotton may be sold by the peasants through diversified channels after fulfilling the state purchase quotas.

This makes our economic system different from the system which equates the planned economy with mandatory planning which covers everything, and from the system which abolishes mandatory planning and operates mainly on market regulation. This system requires that we maintain necessary centralism on the one hand and appropriately introduce more flexible measures while exercising a moderate degree of control on the other. The idea is to exercise control without

being too rigid about everything and to be flexible without getting things into a mess. Of course we still have to work hard to ensure the complete success of this system.

II

What are the objective bases for implementing the principle of the leading role of the planned economy supplemented by market regulation and for running the economy by means of mandatory planning, guidance planning, and market regulation? Chiefly speaking, there are the following considerations:

First, the diversified forms of the economy. At the present stage, diverse economic forms still exist in our country. We have the state sector, the collective sector, and, to some extent, the individual sector of workers. This structuring of economic forms is determined by the level of the development of the productive forces. The planned economy is objectively required, but different forms of management are also needed. On the whole, the state sector must and can be covered by mandatory planning. In principle, the collective sector can only be covered by guidance planning. As for diversified individual economies, market regulation is more suitable.

Second, the diversified nature of economic activities. The socialist economy is an organic entity. Its activities are closely related yet different. On the one hand, it is impossible for the state to know about all economic activities. This is not merely due to technical reasons. More important than this is that it is impossible to make precise estimates of enthusiasm which has a vital bearing on the economic interests of different levels. On the other hand, seen objectively, different economic activities play different parts in the proportionate development of the national economy. The production and circulation of some products have a vital bearing on the whole situation. These products play a decisive role in stabilizing and developing the national economy. There are also products whose production and circulation are only of significance to the locality or region and have little effect on the economic situation as a whole. This makes it necessary for us to deal with each economic activity on its merits and to adopt different forms of management.

Third, there are extensive and polysemous relations between commodity and money. At the socialist stage, extensive commodity production and commodity exchange still exist and the law of value still regulates production and circulation to some extent. This requires that we must honestly acknowledge and extensively make use of the relations between commodity and money which objectively exist, and consciously put the law of value into application in economic management.

Unlike capitalist commodity production which is based on the system of private ownership, socialist commodity production is based on the system of public ownership. The fundamental interests of different production units must coincide. This is the primary and basic requirement. Although these units must recognize that each has different interests, they should regard such differences as secondary and subordinate. Thus, socialist commodity production must and can be carried out in a planned way. It is incorrect to regard planned

management and commodity production as conflicting, thinking that we are negating commodity production if we practice planned management, and that we cannot carry out planned management if we extend recognition to commodity production. However, if planned management is to suit the needs of the polysemous commodity-money relations which exist on an extensive scale, it is bound to show some distinctive features in form.

In the past, we denied the existence of commodity relations within the sector of the economy which is owned by the whole people. This resulted from our denial of the fact that state enterprises had relatively independent economic interests. Practice proves that under socialist conditions, to each according to his work should be implemented not only among the staff members and workers, but also among the enterprises. While making contributions to the state, the enterprises should be able to reap economic interests that are commensurate with the results of their labor and operation. Thus, even to the state enterprises, such categories as value and price are not merely "mathematical signs" and commodities are not merely formal "casings"; they have their own bearing on economic interests. In principle, the disparity of benefits between the state enterprises can only reflect the disparity of labor between them. The differential income produced by differences in the conditions of material production should be handed over to the state through such channels as resources tax and charges on the use of state funds. Thus, commodity-money relation in the state enterprises do not reject the fact that the state can directly distribute capital goods, manpower, and products where necessary and possible, but they require that the principle of exchange at equal values be observed in the distribution of capital goods and products and that the material interests of the enterprises be given due attention.

Unlike the state enterprises, the economic interests of the collective enterprises include both the factor of labor and the factor of production conditions. Thus, in principle, the state cannot directly control the capital goods, manpower, and products of the collective enterprises. It can only guide them to carry out production and exchange according to the requirements of the state plan through such economic means as pricing. However, because they are led by the socialist state and are closely related with the sector of the economy which is owned by the whole people, their owners are also part of the main body of ownership by the whole people. The development of the sector of the economy which is owned by the whole people also represents their fundamental interests. Thus, the commodity-money relations between them and the state enterprises do not reject the guidance of state plans which represent the interests of the whole people. When necessary, the state can assign mandatory targets for certain major economic activities. Of course, such targets should not be too numerous. It is also necessary to observe the principle of exchange at equal value. Otherwise, the material interests of the collective enterprises will be infringed upon.

Commodity production by individual laborers is small commodity production based on the system of individual ownership. It requires regulation through the market. Because it is attached to a powerful socialist economy, it must by and large be guided and controlled by the state plan.

In forging ties with commodity-money relations of different significations, the question of making use of the law of value through different means arises. Both in mandatory planning and in guidance planning, we must make conscious use of the law of value. Although mandatory planning is implemented by direct administrative means, it must also make use of the role of economic levers that are related to the category of value. Whether in determining the varieties and quantities of products or in fixing the prices of products, we must conscientiously study the situation of supply and demand on the market and take into consideration the value of products. In the past, we thought that mandatory planning meant or implied that we could leave supply and demand on the market and the law of value out of consideration. Guidance planning is implemented mainly by making use of the law of value and various economic levers. It is an important means by which the state makes conscious use of the law of value to regulate the production and circulation of some products. As for the part covered by market regulation, the law of value spontaneously plays its regulatory role and basically determines what and how much should be produced as well as the movement of prices on the market.

Making use of the law of value in a variety of ways is also determined by the complicated nature of the socialist economic movement. Under socialist conditions, the law of value is not the only economic law that regulates social production. First among these other laws are the socialist basic economic law and law of planned development. The operational direction of these laws coincides with that of the law of value in many places. Thus, we may and should put guidance planning and market regulation into practice within given limits and attain the goals of other laws mainly with the aid of the law of value. In this way, we can more harmoniously unite the interests of the whole with partial and local interests, and better combine the planned guidance of the state with the initiative and enthusiasm of enterprises. At the same time, we must also see that on certain occasions and at certain times, the roles of these laws and the law of value may not coincide and may even clash. This is because the basis and mechanism by which they operate are not identical. The socialist basic economic law and law of planned development operate on the basis of fundamentally identical economic interests among the people brought about by the system of public ownership. They demand that we proceed from the interests of the whole society to develop the economy in a planned way and to meet the material and cultural needs of the people. The law of value operates under the condition of different enterprises having their own economic interests. It demands that the enterprises proceed from the consideration of whether their own interests, that is, their own labor, are totally accepted by the society to improve their results and maintain the necessary proportions of social production. The partial and immediate interests of the enterprises may clash with the overall and long-term interests of society. Moreover, it is sometimes impossible to resolve the contradiction by steering a middle course. In other words, in order to ensure the overall and long-term interests of society, it is often necessary to sacrifice partial and local interests for the time being. Under such circumstances, it is not advisable to implement the plans simply by relying on economic means. Instead, we must make use of mandatory planning to ensure the resolution of this contradiction in a manner that is favorable to the overall and long-term interests of society.

The above analysis shows that at the present stage, both our productive forces and our relations of production require that we adopt different forms of planning and management, such as mandatory planning, guidance planning, and market regulation, in running the national economy. We have no choice in the matter because we are required by objective conditions to do so. In addition to objective conditions, there is, subjectively speaking, the question of how much we can attain in implementing our work plans in a given period. The three objective bases discussed above are interrelated and interwoven but are not completely identical. For example, we may enforce mandatory planning in regard to the state enterprises, but we do not have to make it a rule. We should enforce guidance planning in regard to the collective enterprises, but if necessary we may also enforce mandatory planning in regard to certain major activities. Here, the decisive factor is the position occupied and the role played by these economic activities in the national economy. Because the conditions of different periods vary, the importance of various economic activities in relation to the whole situation also changes. Thus, there are no hard and fast scopes for the three forms of management mentioned above. At the moment and for some time to come, the scope of mandatory planning should be gradually narrowed and that of guidance planning should be appropriately enlarged. At the same time, market regulation should be carried out within given limits. In other words, we should exercise strict control over major economic matters while adopting a flexible policy toward lesser ones.

Will the adoption of different forms of management create contradictions within the unified national economy? Yes, it will. The reason is that under this system, one portion of the same product is for planned distribution while the other portion is for free exchange. There may even be different prices for the same product. Products for free exchange may require products for planned distribution as their raw and semifinished materials, and products for planned distribution may require products for free exchange as their raw and semifinished materials. Thus, when there is a shortage of resources, either the part covered by market regulation will pound away at planning, or market regulation will not be able to play its proper role because planned management is too strict. However, because our purpose in adopting these forms is to ensure the proportionate and sound development of the national economy, and because mandatory planning plays a leading role, the contradictions between them can be properly resolved by handling them correctly and will not become antagonistic. Our task is to correctly define the scopes and limits of mandatory planning, guidance planning, and market regulation according to the concrete conditions at different periods, to create the necessary conditions for them to play their respective roles, and to correctly handle their contradictions and harmonize their relations in actual work. No doubt this is going to be a very complex and difficult task. We should, while overcoming these difficulties, gradually suit the forms of economic management to the needs of actual conditions, and establish economic and planning systems that conform to China's conditions.

III

In order to restructure the economic and planning systems in accordance with the principle of ensuring the leading role of the planned economy supplemented by market regulation, we must do a lot of painstaking work and solve a series of complicated problems. Chief among these are:

First, we must correctly determine the scopes of mandatory planning, guidance planning, and market regulation. If this matter is not looked into, the rest of our work will not have any basis. The work of actually determining the scopes is very complicated. First, we have to decide whether to take the system of ownership, or the importance of the enterprises, or the importance of the products or tasks as the basis for determining the scopes. Second, we have to decide how large the scopes should be for mandatory planning, guidance planning, and market regulation. Those engaged in theoretical and planning work are still actively searching for solutions to these questions and have not yet come to a consensus. In principle, we will encounter difficulties if we simply adhere to a single factor. We should take all of the above factors into consideration and accord top priority to the importance of the products. This may be more appropriate because what we mean by an overall balance is mainly the balance between labor and products. In determining the scopes, we should also take the actual conditions in the spheres of production, construction, circulation, and so on into consideration. As we see it now, mandatory planning roughly includes the following aspects. 1) The balance between the total volume of production and the total volume of distribution in gross output value and in the national income, particularly the balance between revenue and expenditure. If such a balance is not strictly maintained, there is no way of ensuring steady development. 2) The proportion between accumulation and consumption. We must strictly control the total volume of investment in fixed assets, particularly in capital construction, and see to it that the volume of investment suits our national strength. This is also an important factor for the steady and proportionate development of the economy. 3) An essential part of the production and distribution of major products that have a vital bearing on the national economy and the people's livelihood must be covered by mandatory planning. Without this provision, it is also impossible to ensure the proportionate development of national economy. At present, we are unable to meet the requirement of concentrating our energy on strengthening the key projects because many of the major resources are too scattered. This has produced quite an impact on planning. After the scope for mandatory planning has been determined, we should resolutely adopt a flexible policy toward products covered by market regulation, primarily petty commodities. The intermediate category is to be covered by guidance planning.

Second, we must improve and strengthen the work of planning and make planning more scientific. Our major tasks are: 1) To establish a scientific decision-making process and system, making a special effort to ensure that major policy decisions on economic matters are practical and not likely to cause major problems. 2) To set up a planning system that can make long-term, intermediate, and annual plans dovetail and which closely integrates the plans for scientific and technological, economic, and social development. 3) To strengthen the system of setting targets in planning while making the attainment of better economic results the heart of our work, and set targets for value, quality, and beneficial results. 4) To strengthen the system of overall balance. We must not only improve the equilibrium of goods in kind but must strengthen the equilibrium of the magnitude of value, making sure that the two are closely related. Static equilibrium is essential, but more important is that we must maintain a dynamic equilibrium, take the past and the future into consideration, and enhance our foresight. 5) To improve the process of working out plans and better

implement the principle of democratic centralism; as well as to strengthen the work of collecting and studying information and making forecasts on the basis of such information, strengthen the spadework for planning, particularly statistical work, and strengthen the work of conducting research on economic planning. 6) To enhance the solemnity of planning by establishing and strengthening stringent systems for the examination and assessment of planning and a system of responsibility. In short, we must make planning more scientific and, on this basis, enhance the solemnity of planning. This is the prerequisite for making a success of the three forms of management. If major errors are made in planning and if the basic proportions are wrongly fixed, the enforcement of mandatory planning will cause losses. Not only that, even guidance planning and market regulation cannot work smoothly.

Third, we must gradually readjust the unreasonable price system, give full scope to the role of such economic levers as taxation and interest rates, and learn how to make better use of economic levers in running the economy. This plays a crucial part in our efforts to create a new situation in the restructuring of the planning system as well as the entire economic system. If this matter is not tackled, guidance planning and market regulation will be greatly restricted. Moreover, it will be difficult for us to make major improvements in mandatory planning. Pricing is a very complicated issue. We may carry out all-round reform when conditions are ripe, or we may carry out reform by stages and in groups in the light of actual conditions. We must take different factors into consideration, base our action on the financial strength and economic sustenance of our country, look ahead and behind, weigh the pros and cons, and be circumspect in deciding on the method. Since it is not possible for us to make the price system reasonable within a short time, we should pay special attention to giving full scope to the role of taxation. Taxation has a bigger role to play in the second phase of implementing the system of taxation instead of the delivery of profits to the state. By introducing a unified tax rate for the same product, we can regulate the profit level among different trades and can encourage the advanced and spur on or eliminate the backward within the same trade. With the gradual enforcement of guidance planning, the use of economic levers will become an organic part of planning. Whether in making price readjustments or in deciding on tax and interest rates, we must submit to the requirements of planning and make it our goal to promote the well-coordinated growth of the economy and achieve better economic results. We must not do what we want and take what we want. In this connection, a set of systems has to be gradually instituted.

Fourth, we must strengthen economic legislation and legal work and strengthen economic supervision. A lot has been done in this regard, but that is not enough. Cases of not having relevant laws to go by or not observing the law are still quite common, and inspection and supervision work is rather poorly done. Without a radical change, it is impossible for us to establish new economic and planning systems. We should pay close attention to the formulation of important economic laws and take corresponding steps to strengthen economic legislation and economic supervision.

The planning system is an important link in the economic system. Its reform touches on many areas. The structures of resources, pricing, labor, finance, credits, and foreign trade and the systems of the organization and management of enterprises are all closely related with the planning system. Thus, the reform of the planning system must be carried out in close conjunction with reform in other areas before it can produce good results.

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AGGREGATE ECONOMIC DATA

JIANGSU GOVERNOR GU XIULIAN STRESSES ECONOMIC RESULTS

Hebei JINGJIXUE ZHOUBAO [ECONOMIC WEEKLY] in Chinese 12 Mar 84 p 1

[Article by Miao Zuxing [4924 4371 1630]: "Jiangsu Proposes Stressing Improving Economic Results in This Year's Economic Work Plan. Provincial Governor Gu Xiulian Asks That Three Key Points Be Stressed and Three Breakthroughs Accomplished To Achieve "Three Stresses" and "Four Improvements"]

[Text] Jiangsu's economy is the same as the nation's. Production is rapidly developing and economic results are constantly improving. In 1983, grain output topped 60 billion jin; financial revenue topped 7 billion yuan. Gross industrial and agricultural output value topped 80 billion yuan, with the industrial portion of this at 56.84 billion. The trend in the light and heavy industries was for coordinated development and they basically achieved the demands to "be top in quality, low in consumption, make profits and be safe."

According to preliminary statistics, the quality of principal industrial products steadily improved to 79.6 percent. There were 486 new products shown at the National New Product Exhibition and 54 of these achieved or approached international levels. The rural commune-run industries rich in Jiangsu's characteristics had new developments, reaching 10.1 billion yuan in gross output value. If we add 5 billion yuan of team-run industrial output, then the provincial total for the two sectors of industry was 15.1 billion yuan.

At the beginning of the year, provincial governor Gu Xiulian laid out the year's economic work. He requested that we continue to put relationships in order, improve comprehensive results, achieve the "three emphases" and "four improvements," stress three major points and accomplish three breakthroughs, namely, emphasize results, the overall situation and contributions; improve organizational, technological and management levels; and develop abilities to make new products. To emphasize the key point of technological progress, we must make breakthroughs in popularizing microcomputer usage and developing and improving the machinery and electronics industries. To emphasize the key point of reorganizing and combining enterprises, we must make breakthroughs in specialization and

cooperation centered on products. To emphasize the key point of developing new types of production enterprises, we must make breakthroughs in the feed, foodstuff, packaging and building materials industries. Southern Jiangsu is to be improved overall, Northern Jiangsu is to be developed at key points, and the economy throughout the province vitalized.

This reporter learned that the Jiangsu representatives to the National Economic Work Conference combined the reality in Jiangsu with the spirit of the conference and noted that it is extremely urgent to rely on technological advances to develop the economy. The provincial government has set up a leading study group to study and tackle this. With Gov Gu Xiulian in charge and composed of the Provincial Economic Planning Commission, the Science Commission and the Electronics Office together with the strength of institutions of higher education, scientific research units and the national defense industry. This year, various departments and cities in the province used financial resources corresponding to 2 million in foreign exchange and RMB 10 million yuan as outlays to popularize the use of microcomputers.

Jiangsu will make a large breakthrough in changing "small and complete" into "small and specialized" by using the favorable new system of city-managed counties centered around cities. Based on the characteristics of trades, it will strengthen management and do a good job of readjustment, reorganization and combination and progressively organize concerned large-, medium- and small-size enterprises in cities and villages, owned by the whole people and collectives, to revolve around backbone industries and products and form totally integrated specialized cooperative systems that rationally divide work among large, medium and small enterprises based on the principle that ownership, jurisdictional relationships and channels for submitting revenue will not change. It has been tentatively decided that small-scale walking tractors suited to the special needs of rural areas and TV's bicycles and several other trades urgently needed by the cities be made central to make breakthroughs in specialized cooperatives, expand the output of top-quality and famous-brand products and improve industrial production levels and social results.

12615

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ECONOMIC MANAGEMENT

SHANGHAI STRESSES SIMULTANEOUS REVENUE, PRODUCTION INCREASES

Hebei JINGJIXUE ZHOUBAO [ECONOMIC WEEKLY] in Chinese 5 Mar 84 p 1

[Article by Cai Minglin [5591 2494 7792]: "Shanghai Municipal Conference on Financial Work Discusses Measures To Achieve Synchronized Increases in Financial Revenue and Production"]

[Text] For the third year in a row Shanghai's production increased; 1981's increase was 3.3 percent; 1982's 4.6 percent and 1983's 6.5 percent, while financial revenue declined. The year 1981's increase was 0.3 percent; 1982's 2.8 percent and 1983's 1.3 percent. This is not only an outstanding problem for financial work at present but also a major task for financial research in this municipality.

How can declining production and declining revenue be turned into increasing production and increasing revenue, achieving synchronized increases in financial revenue and production?

The Key Is To Lower Costs

If industrial production costs in Shanghai dropped by 1.0 percent, profits could increase by over 300 million yuan. Last year, there were cost overruns in 514 local state-run industrial organs amounting to 360 million yuan. Over 640 types of products lost 38 million yuan. Consumption of raw materials rose, by up to 70 percent in some industrial bureaus. The passive situation can be shaken off only by an emphasis on lower costs. To this end:

1. Emphasize the six proportions and perfect cost evaluations. The six proportions are: improve the proportions of raw material usage, product purchases, finished-product quality, finished-product grade and energy usage and reduce the proportion of rejects. Cost evaluations must be strengthened and cost quotas issued to every bureau and company in charge, including reduced figures and proportions for lower levels of consumption and the expenses of key raw materials and energy, and there must be improvements in the proportion of labor production.
2. Mobilize scientific and technical personnel to contribute to lower costs and make them pay attention to estimating costs in all technological activities.
3. Every weak link must be aimed at and cost management strengthened.

4. Perfect the bonus system. Make a systematic inspection and necessary revisions in the bonus system originally formulated for economizing on raw materials. Make it more favorable to promoting lower costs in enterprises and improving economic results.

Vigorously Minimize Losses; Energetically Recover Losses and Increase Surpluses

At present, the focal point for Shanghai's loss minimization is foreign trade. Last year, investigations of 220 export products found that industry profits could not compensate losses in 126 of them. Except for a few of these producing commodities whose selling price could be increased or whose exports could be expanded to recover losses and increase surpluses, production units should quickly stop or switch production, make the necessary reform in their product mix and allow useful raw materials to be used for products in urgent need of development. Other loss producing industries, loss-producing products and loss-producing areas of circulation should also be earnestly emphasized. In the past it was often said that losses of a policy nature concealed those of a management one, but it appears that this does not go far enough. Conditions in Shanghai are rather good; losses of a management nature should be basically eliminated and those of a policy nature must be reduced.

Support the Technical Transformation of Enterprises in Terms of Policy, Funds and Management

Some should be supported in terms of funds and tax revenues to promote the development of new technologies, change the product mix, expand sales and constantly improve economic results. Some should be combined with enterprise restructuring to counter weak management links, improve management, recover losses and increase surpluses. Some should be combined with strengthening financial management to plug holes and overcome waste.

Strict Financial Discipline Stops Rampant Leaks

Errors and leaks in some departments and units are serious and even profits are stopped and retained. A look at investigations in financial affairs at large in the last few years revealed nearly 200 million yuan in evaded taxes, missing taxes and too little profit submitted. Many of these are old problems that have returned. Looking at enterprises, financial discipline is rather lax. In the financial and tax departments, the management of tax collection is somewhat slack. Rampant leaks can be stopped up only by the simultaneous management of both departments.

12615
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ECONOMIC MANAGEMENT

XUE MUQIAO: OBJECTIVE ECONOMIC LAW IN ECONOMY MANAGEMENT

Hebei JINGJIXUE ZHOUBAO [ECONOMIC WEEKLY] in Chinese 5 Mar 84 p 1

[Article: "Manage the Economy According to Objective Economic Laws. Xue Muqiao Says: 'Putting Economic Relations "In Order" Lies in Making Economic Development Conform to Objective Economic Laws'"]

[Text] The fundamental reason why the socialist economic system cannot give full play to its superiority is that the objective laws of socialist economic development have not been truly understood. Therefore, to understand and apply objective economic laws correctly has become the difficult task before us which must be solved. We can only go from the realm of necessity to the realm of freedom by solving this task over several decades or even a century.

This reporter recently learned that our country's famous economist, Comrade Xue Muqiao, stated his views on how to manage the economy according to objective economic laws.

First, Comrade Xue Muqiao pointed out that the socialist economic system is definitely and unquestionably superior to the capitalist economic system. However, the fundamental reason why the superiority of the socialist economic system has not been given full play is that we still do not truly understand the objective laws of socialist economic development. Economic work often goes against the objective laws and as a result is punished.

Comrade Xue believes that socialist countries go against objective economic laws in four respects:

First, they go against the law that production relationships must be suited to the level of the development of productive forces. The progress of the socialist transformation in production relationships is faster than the development of productive forces. To leap from the capitalist transition period to mature socialism, a very long developmental stage is still required, especially since we were a country with a rather backward economy before liberation and the natural and commodity economies still occupy dominant positions.

Second, they go against the law that the national economy is planned and that development is proportionate. Since our economy is rather backward, surpassing capitalism requires a high rate of productive development. This requires faster heavy industry construction, and to satisfy the excessive scale of capital construction, demands are created which cannot be met by the means of production. The overly rapid development of heavy industry has squeezed agriculture and light industry, making the supplies of consumer products increasingly short. The people's livelihood cannot develop in pace with production and improve as it deserves.

Third, they fail to understand that the law of value must be earnestly applied when practicing planned management, for commodity production and circulation still widely exist in a socialist economy. Not only have various commodities been in short supply for many years but prices have also departed from value, encouraging contradictions between the production of and demand for various commodities.

Fourth, they advocate "overall equality and slight disparity" and did not respect the law of distribution according to work for a considerably long time. For a 20-year period beginning in 1957, there were basically no wage increases nor adjustments, causing the gap between labor's contribution and remuneration to become increasingly large. Adjustments have been made in recent years but the problem is still hard to solve.

Comrade Xue Muqiao noted that the following points are of extreme importance in readjusting the national economy according to objective economic laws.

First, we must adopt a method of production that is suited to our country's actual situation, appropriately decentralized and rather flexible and abandon the blind search for the typical socialism envisioned by Marx for production relationships. Nor can we indiscriminately copy the Soviet Union's systems of highly centralized ownership by the whole people or by collectives.

Second, we must not hesitate to slow down temporarily the increasing pace of production in order to readjust the proportionate relationship of the national economy and reduce the scale of capital construction. Practice proves that a relative balance can be achieved only by reducing capital construction investments to a reasonable scale.

Third, we must be good at applying the law of value and other economic levers to guide the production of various products into conformity with the state plan and market demands.

Comrade Xue Muqiao also noted that understanding and applying objective economic laws is certainly not as simple as writing a textbook. While man has been studying the objective laws of changes in nature for several thousand years, these laws are far from being entirely understood. They

cannot be grasped at will. Even now, we are still powerless before seasonal droughts and floods and other climatic changes. Socialist economics has a history of only several decades of development. To understand and apply objective economic laws correctly have become the difficult tasks before us which must be solved since the state economy must be planned. We can only go from the realm of necessity to the realm of freedom by solving this task over several decades or even a century.

12615

CSO: 4006/500

FINANCE AND BANKING

RURAL COMMERCIAL CREDIT PROMOTED

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 4, 4 Apr 84 pp 36-37

[Article: "Rural Commercial Credit Must Serve to Hasten Production of Rural Goods"]

[Text] The year 1983 was a record-setting one for our nation's agricultural production. In continuing to implement and perfect the integrated production contract responsibility systems, the vast rural areas moved forward in mobilizing the productive initiative of the peasants, and major agricultural and sideline products such as grain and cotton saw tremendous production increases. Along with the development of the production and circulation of commercial goods, the incomes of the peasants have increased, both buying and selling have been lively in the rural markets, the entire agricultural economy has grown more dynamic daily and the situation continues to improve. All this makes it clear that our nation's rural areas are truly in the midst of a transition to large-scale commercial-product production and the development of specialization, socialization and modernization. In facing this historic change, a lot of work in the chain of circulation is not keeping pace; a common and increasingly prominent problem is that peasants are having difficulties buying and selling. For example, the commercial-sector procurement network is incomplete, to the extent that in seasons when agriculture and sideline products are gathered and sent to market, the peasants of some areas must endure the hardships of a journey of several days in order to sell their own products. Because the commercial sector's ability to store, process and transport is inadequate, a large volume of some products readied for market spoils or suffers a decline in quality. The amount of currency in the hands of the peasants has increased, but due to the tight supply and demand situation for marketable goods, we are far from satisfying the peasant demands for the means of production such as fertilizer and agricultural equipment and the means of subsistence such as high-quality, durable consumer goods. In particular, the need for materials, technology, storage, processing, transport, supply and marketing facilities and information is becoming increasingly intense for the now flourishing specialized households, but these services provided to the "two households" by the rural commercial enterprises are lagging far behind need. The defects in the commercial-goods circulation chain have already become a tremendous obstacle to the development of rural commercial goods.

The Agricultural Bank shoulders the task of supplying credit for agriculture, industry and commerce in rural areas. Because of this, it must both directly support production and also help clear the commercial sector's channels of circulation, opening a broad avenue along which rural commercial production can develop. For the last few years, we have placed greater stress on work on the circulation chain than we have in the past, but for various reasons, we have yet to support circulation the way we support production, leaving a weak link in our work. Solving this problem first requires that rural financial cadres have a correct understanding of the function of circulation in commercial production. In terms of the development of society and the economy, natural economy is self-supporting production. Commercial-goods production is management production with the sale of products as the goal. Only through the chain of circulation can the products of commercial-goods production truly become commercial goods. Therefore, we say that "circulation is an indispensable link in commercial-goods production--to handle production you must handle circulation."

(Document No 1, 1984, Party Central Committee) Because of this, we must free ourselves from the natural economy concept and correctly understand the dialectical relationship of production and circulation, on the one hand supporting production and on the other hand supporting circulation, and seeing that the two develop together. Rural credit work must respond to the changing conditions of the rural economy, thereby upholding the principle of the planned economy being primary and market adjustment being supplementary, upholding the policy of the state, with the collective and the individual advancing together, continuing to support reform of the rural commercial system and further stimulating the rural economy. At present, the key elements of rural commercial credit work should be:

Actively support state-run commercial enterprises and supply and marketing cooperatives in fostering the role of the market as a primary channel, buying the agricultural, sideline and unique local products that should be bought and solving the peasants' "sluggish sales" problem. Support the supply and marketing cooperatives in their efforts to do a good job in procurement, in storage and transport and in processing, increase the ways of serving the production and lives of the peasants and gradually build the supply and marketing cooperatives into rural comprehensive service centers. For now, we must pay special attention to managing and utilizing medium- and short-term equipment loans and small-scale equipment loans and supporting state-run enterprise and supply and marketing cooperative efforts to solve the problems of network construction and the lack of storage, processing and transport facilities. Medium- and short-term commercial equipment loans are specially allocated in the state plan. Last year, some areas did not fully utilize them, with only 20-30 percent of the loans set forth in the plan being provided in all of last year so that problems with circulation were unable to be dealt with as needed. This year we must cooperate with the major management departments of enterprises to make timely arrangements to foster fully the active role of these loans in supporting production within the scope of the control targets.

Actively support the extending of wholesale sales by state-run commercial enterprises and their work with supply and marketing cooperatives to organize various forms of joint management, thus opening up new routes for industrial products to move into rural areas and solving the peasants' "difficult procurement" problem. We must earnestly carry out survey research, understand market data, promptly inform concerned departments of market conditions and problems and cooperate with the commercial sector in giving priority to supplying rural areas with industrial products that both urban and rural areas need. We must support supply and marketing cooperatives in increasing the styles and varieties of commercial goods, expanding the volume of industrial goods sales and doing a good job of supplying rural areas, in accordance with the needs of the peasants, with the means of production and subsistence in order to keep pace with the daily increasing purchasing power of the peasants.

Support commercial-sector development of various forms of joint agricultural, industrial and commercial operations. Joint management can lead the production, processing and marketing of product being put into unified plans and realizing multilevel proliferation. Such joint management can see to it that the supply and marketing cooperatives combine with the peasants into a common entity with shared economic interests, can become a bond economically linking the nation and the people and can be an important form of the nation's handling of the supply of goods. The Agricultural Bank can also join in signing production and marketing contracts with the commercial sector and peasants and assist the peasants in producing in accordance with society's needs. The commercial sector must supply the means of production in accordance with peasant needs and purchase the products in accordance with the contracts, while banks must support them with funds in accordance with loan policies. This will help the peasants produce in accordance with plans and will help us fulfill the tasks of unified and assigned procurements.

Support the development of rural collective and individual commercial enterprises and of specialized transport and marketing households. The rational disposition and coordinated development of various economic components, various management forms and multiple circulation channels will add to the enrichment of the rural economy and will make the lives of the masses more convenient. In the past, due to the influence of the mistaken ideology of the "left," for a long time peasants engaged in business were considered to be "ignoring their proper work," while those who engaged in long-distance transport and sales were all the more excoriated as engaging in "speculation and profiteering." Some bank staffers have no end of misgivings about offering loans to collective and individual commercial enterprises, are afraid of violating policy and afraid the loans will not be repaid and so have a negative attitude. Last year, the loans given to rural collective and individual commercial enterprises were far less than the development of their business activities. We should recognize the present role of the rural collective and individual commercial enterprises, and especially the specialized transport and sales households, in the area of circulation. Under the guidance of correct principles and

policies, they enjoy flexible management, make it easy for peasants to sell their products, organize rational transport and sales, are able to reduce the links in the circulatory chain, purchase fresh commercial products directly from the hands of the peasants and place them through transport and sale into the hands of consumers, which promotes urban-rural interconnections and hastens the production of commercial goods. We must seriously study and fully understand and resolutely implement the concerned policies of the party, overcome ideological trepidation, act according to need and, starting with actual conditions, through our work with credit and through settling accounts support the development of collective and individual commercial enterprises and rural specialized transport and marketing households.

Support small, rural market town construction. Market towns are the centers of rural economic and cultural activity and along with the development of a rural division of labor and the rise of pre- and post-production social service industries, the small market town economy will become increasingly dynamic. In the past, we were only attentive to supporting production units and failed to support the expansion of scientific and technical research, entertainment and othersocial service enterprises. Spreading rural cultural life and expanding science and technology will help promote an even faster development of rural commercial-product production. In our work with credit and in settling accounts, we should, in accordance with policy, support market town industrial and commercial enterprises, food and beverage and hotel service industries, cultural and entertainment units and technical guidance and repair service industries, hastening the transformation of rural market towns into regional, rural economic and cultural centers.

The paths of rural commercial enterprise credit work are expansive and the work is difficult and arduous. The Agricultural Bank at every level must strengthen its leadership, meticulously organize, solidly perform every item of work on the foundation of survey and research and make new contributions supporting and promoting the development of rural commercial-goods production.

9705

CSO: 4006/493

FINANCE AND BANKING

AGRICULTURAL LOANS FOR FIRST QUARTER

Yinchuan NINGXIA RIBAO in Chinese 23 Apr 84 p 1

[Article by Zhang Huaixin [1728 2037 0207]: "Support Commodity Production, Promote Comprehensive Business Activities. Our Region Extended 76 Million Yuan in Agricultural Credits During the First Quarter"]

[Text] The agricultural banks and credit cooperatives in our region studied the Central Committee's Document No 1 of this year, propagated it and implemented it and just at an opportune time in the first quarter of this year extended agricultural credits to the amount of 76.36 million yuan. The purpose was to support the development of commodity production in the villages and by specialized households and to promote the development of the rural sector from a single-product economy to a comprehensive economy.

The issuing of agricultural loans during the first 3 months of this year was, first, 20 days earlier than in past years; second, 32.3 percent above last year's figure for the same period; and, third, showed a gratifying change in the uses for which the credits were granted, namely turning from general loans to loans for equipment. 1. About one-quarter of the capital from agricultural loans in the cities and counties of the river basin area is used for the purchase of large agricultural machinery. For instance, in the counties of Pingluo and Qingtongxia, credits used for the purchase of walking tractors accounted for over 20 percent of all the agricultural credits. 2. In all the counties of the mountain area, loans were used to buy livestock, since they were just in the course of going from the development of draught animals to the development of breeding livestock. For instance, the breeding livestock raised in Haiyuan County accounts for half of all livestock in that county. 3. There were increases in loans for the purchase of chemical fertilizer. In the counties of Qingtongxia and Pingluo, credits for the purchase of fertilizer in the first quarter of this year accounted for 35 to 38 percent of the total credits, while in Helan County, which has more quickly developed commodity production, it accounted for over 55 percent. 4. There is a progressive increase in the proportion and range of loans to specialized households. Among the agricultural credits extended in the first quarter of this year, the loans to specialized households amounted to over 60 million yuan, or over 80 percent of the total credits granted. Credits to specialized households extended in Yinchuan in the first quarter of last year accounted for only 32 percent, while they reached 50 percent this year.

FINANCE AND BANKING

BIG INCREASE IN STATE REVENUE FROM NINGXIA

Yinchuan NINGXIA RIBAO in Chinese 26 Apr 84 p 1

[Article by Yu Chunqun [7625 2504 5028]: "Raising Economic Results, Efforts To Increase Income and Save on Expenditures. The State Revenue in Our Region Has Greatly Increased during the First Quarter"]

[Text] State revenue in our region during the first quarter of this year reached 50.91 million yuan, which is 26.1 percent of the annual plan and 48.4 percent more than during the corresponding period last year.

Since the beginning of this year, all localities and departments of our region have complied with the demand of the people's government of the autonomous region and continued to push economic work vigorously, have vigorously and at an early date devoted themselves to transforming the losses formerly suffered by enterprises into surpluses and have induced an improvement in the economic results of enterprise operations. Income in industrial enterprises rose 57.6 percent, and there have been large increases over the budgeted output value and sales receipts of local state-run industrial enterprises, compared with the same period last year. At the same time, the finance and tax departments at all levels completely fulfilled their proper functions. They spurred the enterprises on to increase their incomes and economize on expenditures, while strengthening the collection and management of tax revenue. There was an 8.4 percent increase in the industrial and commercial tax collected, compared with the corresponding period last year. Adapting to market changes, the commercial departments widened the channels for imports and added greater varieties of design, color and types of merchandise, to satisfy the needs of the masses, while keeping revenue income at normal levels. The income of the foreign trade enterprises from the exports of coal rose 151.6 percent over those of the corresponding period last year. In all the 14 municipalities and counties of the region, revenue increased to varying degrees. In the four counties of Longde, Tongxin, Zhongwei and Xiji, revenue rose to over 60 percent compared to the corresponding period of last year.

9808

CSO: 4006/510

FINANCE AND BANKING

BRIEFS

CLOSER PRC BANKING CONTACTS--CA banking corporation Director General Hannes Androsch stated during a visit to Beijing, which he paid at the invitation of the Bank of China, that the PRC could receive from Austria "mixed development aid conditions." Since the country is viewed internationally, "relatively solvent," but as a developing country also receives preferential conditions, loans could be granted which would be linked with Chinese return deliveries within the framework of long-term projects. Androsch stressed that the purpose of his visit was to "facilitate the access of involved enterprises of the CA banking corporation to the Chinese market." [Summary] [Vienna DIE PRESSE in German 1 Jun 84 p 20 AU]

SHAANXI REVENUE INCREASES--The state revenue of this province for the first quarter of this year amounted to over 364 million yuan, an increase of 25.9 million yuan, or 7.65 percent, compared with the corresponding period last year. Industrial production and commercial sales during the first quarter were excellent throughout the province, and the different types of state revenues increased at the same pace as the value of industrial output and the volume of commercial sales increased. In fiscal expenditures, the first quarter of this year saw increases in expenditures, the first quarter of this year saw increased in expenditures of a productive nature but to some extent reductions in administrative expenditures. [Text] [Xian SHAANXI RIBAO in Chinese 26 Apr 84 p 1] 9808

INTERNATIONAL FINANCE SYMPOSIUM OPENS--A symposium organized by the China International Financial Society opened in Zhengzhou yesterday. Present at this symposium were the responsible comrades of the economic research center of the State Council, the Bank of China, the Ministry of Foreign Affairs, and the China International Trade Research Institute, and professors, experts, and scholars from colleges and universities, scientific research organizations, and professional departments of various provinces, autonomous regions, and municipalities throughout the country. The focus of the symposium is placed on the strategy to be adopted by our country in developing external financial business. Bu Ming, chairman of the China International Financial Society and chairman of the board of directors of the Bank of China, attended and addressed the opening session of the symposium. Yue Xiaoxia, vice governor of Henan Province, extended congratulations to the symposium on behalf of the Henan Provincial CPC Committee and provincial government. [Text] [HK150909 Zhengzhou Henan Provincial Service in Mandarin 1230 GMT 14 Jun 84]

WORLD BANK DELEGATION IN SHANDONG--The 5-member delegation of the World Bank's executive directors arrived in Jinan City by train from Shanghai Municipality on the morning of 31 May on their observation tour of Yucheng County, Shandong Province, which, together with other counties, had received the bank's loan of \$30 million for a program of improving the saline-alkali soil. On the evening of 31 May, Liu Peng, deputy governor of the province, received and feted all delegation members at the Najiao Guest House. After completing their observation, the delegation left Jinan City by night train for Beijing Municipality on the same day. [Excerpts] [SK200547 Jinan Shandong Provincial Service in Mandarin 2300 GMT 1 Jun 84 SK]

CSO: 4006/601

MINERAL RESOURCES

BRIEFS

SHANDONG GOLD PRODUCTION--During the first quarter of this year the gold mining industry in our province was able to overfulfill the state plan by 10.3 percent, with a net gold production increase of 6,114 liang. According to statistics up to the end of March, the total production of gold throughout the province fulfilled 27.02 percent of the annual plan and showed an increase of 10 percent, compared with the corresponding period last year. In this amount, the production of gold in finished form fulfilled 32.17 percent of the annual plan, an increase of 78.86 percent over the corresponding period of last year. [By Zhang Xueren [1728 1331 0088]] [Text] [Jinan DAZHONG RIBAO in Chinese 23 Apr 84 p 1] 9808

CSO: 4006/509

INDUSTRY

BRIEFS

PLANT ENGINEERS TRAINING CENTER--Xian, May 26 (XINHUA)--A training center for plant engineers opens today at the Northwest China Engineering University in this capital of Shaanxi Province. The China Plant Engineering Training Center, founded with the approval of the State Economic Commission, will offer short-term courses to update the equipment management skills of factory directors, managers, engineers, mechanics and executives in communications departments as well as engineering university graduates. As a teaching and research-oriented institute, the center will also conduct academic exchanges with organizations at home and abroad. From next year, the center will offer two-year in-service courses for plant engineers, and plans to enroll postgraduates. Today's inaugural meeting was chaired by Zhao Weichen, vice-president of the China Association of Plant Engineering. A group of 60 trainees from 16 provinces, municipalities and autonomous regions today completed their two-week courses at the university. [Text] [OW261443 Beijing XINHUA in English 1430 GMT 26 May 84]

CSO: 4010/92

CONSTRUCTION

MEASURES FOR SOLVING RISING CONSTRUCTION COSTS EXPLORED

Beijing CAI ZHENG [FINANCE] in Chinese No 45, 8 Apr 84 pp 13-15

[Article by Zhong Yan [6988 4282]: "Lower Construction Costs and Raise Investment Effectiveness"]

[Text] Rising construction costs, increased expenses and budgetary estimate overruns are problems that have existed for many years. They are also major problems urgently requiring solution in present efforts to increase results from investment in capital construction.

A look at construction costs for newly added overall production capacity in some major industries within the national economy shows that except for a decline in the chemical fertilizer industry and a slight increase in electric power generating units, construction costs in an overwhelming majority of other industries have doubled or tripled since the First 5-year Plan period and have climbed 7-, 8- or more than 10-fold in some cases. Coalmining investment was 46.55 yuan per ton during the First 5-year Plan. This rose to 209.82 yuan during the Fifth 5-year Plan and reached 364.03 yuan in 1982, a 6.8-fold increase over the First 5-year Plan period. Investment in steel smelting was 1,050.42 yuan per ton during the First 5-year Plan period, rising to 2,525.25 yuan during the Fifth 5-year Plan Period and spurring to 18,181.80 yuan in 1982 in a 16.3-fold increase over the First 5-year Plan period. Investment in railroad truck lines was 568,000 yuan per km during the First 5-year Plan period. By the period of the Fifth 5-year Plan, it was 1,749,000 yuan, and in 1981 it was 2.86 million yuan, a fourfold increase over the First 5-year Plan period. Construction costs for all sorts of buildings for the entire national (meaning construction costs for the buildings themselves and not including the cost of equipping them) averaged 50 to 60 yuan per square meter during the First 5-year Plan. By 1982, this figure reached 147 yuan. Since 1976, the cost has risen at about 10 percent per year.

The foregoing situation demonstrates an alarming increase in construction costs. That is to say, what formerly could be done for 1 yuan now requires several yuan or even more than 10 yuan to do. This is also an important reason for the steady expansion of investment in fixed assets, and it should engage our full attention. In order to lower construction costs and increase results from investment, it is necessary to analyze conscientiously the reasons for the rise in construction costs, study ways to lower them and take genuinely effective actions to lower construction costs over a period of time.

There are numerous reasons, both objective and subjective and rational and irrational, for the rise in project costs. But the main reasons are mistaken policy decisions, incomplete planning and bad management as well as the indiscriminate levying of charges, arbitrary apportionment of expenses and wild rises in prices.

1. Poor feasibility studies and wrong policy decisions. Policy decisions on investment have been wrong as a result of poor feasibility studies. This has resulted in drawn-out capital construction, construction on a large scale, great ups and down in numerous construction projects, working in fits and starts and a long-term failure to increase production capacity; on some projects, it has meant quite an investment with no visible results. For example, as a result of several ups and down in the building of an aluminum plant and the replacement of the construction crew several different times, investment in things that produced no results such as management expenses and transfer expenses alone amounted to 25 million yuan. Despite very large problems related to the design, investment of funds and supply of materials, in 1978 a coal mine organized 5,543 people to make an all-out effort, which fulfilled an investment of only 16.95 million yuan, with only 53.7 percent of the project meeting specifications. In 1979, it had to return the construction crews to the places whence they had come, spending 3.5 million yuan on an investment that produced no results, with the payment of transfer expenses and project maintenance expenses for a loss totaling 7.53 million yuan.
2. Incomplete planning with frequent modifications. At present, a "three at a time" situation [possibly meaning planning, construction, and changes in plans all going on at the same time] exists on many projects. Incomplete planning results in numerous changes and serious losses and waste, which increase project costs. As originally designed, the principal production equipment of one petrochemical fiber plant was to be imported and augmented with domestically manufactured spinning machines and follow-on processing equipment. However, the textile plant charged with this task began manufacture without having done any intermediate testing. Consequently, in trial production this equipment was unable to mesh with the output from the imported equipment, and it became necessary to import an additional two spinning machines and two follow-on production lines. Not only did this stretch out the construction time but also required the additional investment of more than 20 million yuan and resulted in a loss to the country of 569,400 yuan in taxes and profits.
3. Unauthorized upgrading of construction standards. In view of China's present economic level, the appropriate upgrading of standards for civilian construction and improvement in mass housing are imperative. However, some places and units upgrade the construction standards at will. For example, some units use high standards in designing civilian construction, with the construction of two balconies and a bathroom for each family complete with ceramic tile-covered walls and mosaic floors and the laying of polypropylene floors in living areas. This increases the costs over ordinary dwellings by 26 yuan per square meter.

4. High estimates and rash calculations of construction budgets. Nowadays, most construction plan budgets are worked up and approved by the construction units themselves. A Construction Bank examination of budgets totaling 45.243 billion yuan for the period 1979 to 1982 resulted in a verifiable net reduction of 2.045 billion yuan, or 4.5 percent of the total budget figure. Some project budget estimates were double what they should have been, and in the case of collective construction enterprises run by street communes and brigades, the estimates were even worse.

5. Rise in costs of construction materials. State readjustment of prices for some construction materials during the past several years has been one reason occasioning the rise in construction costs. A more important reason, however, has been an expansion in the scale of capital construction, which has brought about a shortage of construction materials. Today, a steady decline has taken place in the quota distribution of materials per 10,000 yuan of consumption for construction projects that are part of the national budget. In general, the state does not provide materials for construction projects that units fund themselves. These construction units display great skill, cooperate and buy materials at high prices and at negotiated prices. In one province, 1.21 billion yuan worth of locally funded investment in capital construction were completed in 1982. This included a 170 million-yuan materials price difference resulting from the purchase of high-priced materials, which was 14 percent of total investment. In addition, construction materials organizations overlap; each echelon maintains its own warehouses, and fees are collected in every place possible. This also causes a rise in prices for materials. When there are state-allocated materials markets, in addition to a management fee payable for Materials Bureau management, the handling of materials by the Construction Materials Bureau and the Commune and Brigade Enterprise Bureau increases civilian construction project costs by only 0.28 percent per square meter.

6. Collection of fees under numerous guises and upgrading of standards. A preliminary check has shown more than 370 fees being collected nationally under one guise or another on investment in capital construction at the present time. Many such fee collections are unfair, and most are duplicate levies or arbitrary apportionments that charge all that the traffic will bear or that are extortionate in nature. For example, compensatory fees for the requisitioning of land, the pulling down of structures and the relocation of people are becoming higher and higher and the terms increasingly harsh. Units concerned have figured out that one-third of all budget overruns result from excessive payments of fees for the requisitioning of land. A very large number of the capital construction fees are levied by units in the prefectures, municipalities and counties themselves. Examples include prefecture development fees, land requisition and personnel removal management expenses, fees for municipal services, contract-signing fees, work-expediting fees, construction permit fees, sidewalk fees, etc.

Currently the country annually invests more in capital construction than plans actually call for; however, a very large part of the increase in investment is offset by rises in construction costs with no very great real increase in production capacity. For this reason, the diligent control and lowering of project construction costs hold major significance in controlling the scale of capital construction and in increasing results from investment in capital construction.

A look at the main reasons for the rise in project construction costs shows a need for common efforts in many regards to control and lower project construction costs and the need for genuinely effective actions. We believe strict attention must be given the following several points:

1. Strengthening of budgetary management. Once the state has approved construction project budgets, these budgets should serve as the highest limits for the use of funds on construction projects. Funds (or loans) should be apportioned strictly in accordance with annual investment plans stipulated in construction project budgets, which can thereby play an active role in controlling project construction costs. Consequently, it is necessary to seek truth in facts when working up, examining and approving budgets. There can be no attempt at deception or going through loopholes. No unit may increase individual projects or expenditures as it pleases, upgrade construction standards or exceed total budget estimates above and beyond approved plans. If plans are changed, budgets must be readjusted, and this will require completion of additional procedures, reporting to and requesting approval from the organization that initially examined and approved the project. In any case where the original budget has been exceeded for construction projects without approval and readjustments, planning departments should not be permitted to invest funds, and the Construction Bank should not provide funds. When violations occur, the leaders concerned should be sought out and the responsibility fixed.
2. Enhancement of the formulation, examination and approval of project budgets and final settlements. A very large number of loopholes exists in the method whereby construction units themselves formulate and examine project budgets. Consideration should be given to the revival of the system whereby the planning units formulate construction plan budgets. All project budgets (or final settlements) for construction projects should be forwarded to the Construction Bank for rigorous scrutiny. Following approval, the budgets (or final settlements) should serve as the basis for the final settlement of project cost funds. It is recommended that the departments concerned organize forces for a thorough investigation and study, take a firm grip on the formulation and revision of budgetary estimates and budget figures and unify pertinent standards and regulations so that the formulation of budgets and budget estimates are synonymous, thereby avoiding turmoil in quota management and losses occasioned by arbitrary changing of calculations, estimates and aggregate computation norms.

3. Strict control of planning standards. The greatest savings are savings through planning. Selection of plans for construction project is to be done strictly in accordance with state-prescribed planning standards. It is necessary to proceed from realities as they exist in China and adhere to the principles of "economy, practicality and proper concern for beauty," opposing incorrect tendencies toward going in for grandiose projects. One major obligation of planning departments is to make absolutely certain that planning is done properly. Whenever construction units take the initiative in upgrading planning standards or in increasing the amount of construction to be done, thereby exceeding the budgeted investment, planning units are to turn down the plans. Henceforth, it should be clearly stipulated that whenever planning is incomplete, certain matters are purposely brushed aside or omitted and budgetary estimates are held down only in order to seek repeated increases in investment later on, the responsible persons and the planning personnel concerned in the planning units are to be investigated and the responsibility fixed.

4. Continued serious attention to halting unhealthy tendencies toward wild increases in the prices of the means of production. Since promulgation by the State Council and the Party Central Disciplinary Committee of the "Notice of Resolute Halting of Wild Rises in the Prices of the Means of Production and Arbitrary Apportionment of Expenses among Construction Units," definite results have been achieved in clarifying, rectifying and halting wild price rises. Nevertheless, this unhealthy tendency has yet to be brought to a complete halt. In individual places or units, an abnormal phenomenon has occurred whereby supplies of materials to construction units have been halted because the payment of increased prices has been abolished. Consequently, it is necessary to continue to persevere in the spirit of the "Urgent Notice;" those who still continue the mistake of increasing prices wildly and refuse to reform should be resolutely clamped down on by the Construction Bank, which should not approve payment of funds to them, and their conduct should be reported promptly to higher authority. In serious cases of wrongly raising prices without regard for the interests of the country in an effort to gain private advantage for individuals or small groups, an economic and administrative investigation of the units concerned and the personnel involved is to be conducted and the responsibility fixed.

5. Straightening out of items for which fees are charged and of standards for the collection of fees. A national campaign has been launched to clarify the capital construction items for which fees are charged and standards used for the collection of fees. But application has been uneven. Some places continue to collect unreasonable fees, and even more places and departments maintain a wait-and-see attitude. Consequently it is recommended that the units concerned act quickly to put forward measures for the uniform restructuring and reform of capital construction items for which fees are charged and the standards for the collection of fees.

As the building of the national economy develops and the number of newly built large industrial and mining enterprises increases, it has become imperative that some facilities for public use, culture, education, health and commercial service and for material benefits in daily life be built as an adjunct to major projects to help production and make life easier. Overall planning and equitable planning for these facilities must be done. The amount of money to be spent and the standards for expenditures must be made clear, and channels for the supply of funds kept open. In addition, the national departments concerned are to be informed and their approval requested, with commensurate management methods formulated. This will help the rational construction of industrial and mining areas and will help in drawing a clear line between necessary expenses and the irrational apportionment of expenses.

6. Improvement in methods of managing large-project machinery. In recent years, transfers of construction units on some large, key construction projects have been fairly frequent. With each transfer, the construction machinery and equipment at the construction site have to be moved. Moving construction machinery and equipment in and out increases construction unit burdens. It also results in duplicate purchases of construction machines, low utilization rates and great waste. In order to conserve on investment in key construction and raise efficiency in utilizing construction machinery, it is recommended that a leasing system for large construction machinery be instituted. Consideration should be given in places where key construction projects are fairly concentrated to the establishment of construction machinery leasing companies, with the required investment being planned in an overall way by the state. Correspondingly, for key construction projects using a construction machinery leasing system, only construction machinery leasing expenses should be included in future budgetary estimates for reconstruction projects. The listing of investments in construction machinery or the withholdings of fees for technical equipment would be eliminated from budgetary estimates.

9432

CSO: 4006/469

CONSTRUCTION

SHANDONG'S KEY CONSTRUCTION PROJECTS

Jinan DAZHONG RIBAO in Chinese 20 Apr 84 p 1

[Article by Zhang Huaqing [1728 2037 3237] and Qu Fengyang [2575 7685 7122]: "Smooth Progress in Shandong's 11 Key Projects; Capital Construction Investments Carried out During the First Quarter Had Higher Than Average Level for the Entire Province"]

[Text] Good progress has been made during the first quarter in the 11 projects of our province that had been included as key projects in the state plan. Apart from the Shandong section of the Xinxiang-Heze Railway, the other 10 projects have had capital construction investments completed to 12.8 percent of the annual plan, which is higher than the average level of investments for the entire province.

This year, the key construction tasks of our province are arduous, and the investment already committed funds for 57 percent of the total capital construction investment of the whole province. In implementing the plan, all departments in charge of directing the key engineering projects at the site and all construction units have been vigorously pushing ahead since the beginning of this year and, after the weather turned warmer, set off a new upsurge of construction. The Zaoteng mining area is an item newly added this year as a key project, and all units participating in the construction, imbued with the spirit of guaranteeing key projects in all work and of forging ahead, continuously quickened the tempo of work. In the first quarter, working under the handicap of a serious insufficiency of electric power, they completed 24.4 percent of the annual plan. Apart from having the Zaozhuang Mining Bureau attend to the pit construction at the Tianchen pit, the entire staff of the party and the government moved to work at the worksite and launched competitions for higher levels of work performance and for higher production standards, achieving a 32.5 percent above-quota completion of the drilling footage planned for this quarter.

While speeding up the construction of these 11 key engineering projects, all prefectures and departments carried out additional measures to guarantee and support the state's key engineering projects. Priority arrangements were made in requisitioning land, in demolishing and moving operations, in allocating a sufficient labor force and in providing local building

materials and the necessities of life, and many a longstanding problem was energetically brought to a solution. Weifang City transferred 39 of its men to form an engineering office for the construction of multi-tracks on the Qingdao-Jinan railway line, which was particularly charged with solving local problems in connection with this work. When work was started on the roadbed of the Weifang section to construct multitracks on the Qingdao-Jinan line, they mobilized a labor force of 9,000 from among the local people of Yidu, Changle and Gaomi counties, mustered over 3,000 vehicles of various kinds and in this way finished in only 20 days the job of moving over 300,000 cubic meters of earth and stone. They completed the movement of earth and stone for the roadbed ahead of time and at a high-quality rate of over 95 percent. Zibo City placed the guarantee and support of the Qilu 300,000-ton vinyl project high on its agenda and proclaimed, "We shall give support to the frontline as we did in the war years and will fully support the vinyl engineering project." They decided that they will give their support in some 15 different ways, such as the effective requisitioning of land, demolishing and moving activities, preparatory and ancillary work needed for the construction, the supply of electricity and water, postal facilities, etc., so as to guarantee the smooth progress of the vinyl engineering project.

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DOMESTIC TRADE

MEASURES TO IMPROVE COMMERCIAL UNIT ECONOMIC RESULTS DISCUSSED

Beijing SHANGYE KUALJI [BUSINESS ACCOUNTING] in Chinese No 4, 10 Apr 84
pp 4-6

[Article by the Zhejiang Provincial Office of Commerce: "Implement Policies, Promote Production and Marketing, Serve the Masses and Improve Economic Results"]

[Text] In 1983 departments in Zhejiang Province conscientiously implemented the principle of readjustment, restructuring, consolidation and upgrading as well as pertinent commercial policies, actively promoted the management responsibility system and the substitution of taxes for profit delivery, worked hard to improve enterprise management and achieved fairly good results in accelerating production development, in making proper arrangements for market supply and in paying attention to increasing income, reducing expenditures and improving economic results. In 1983 all economic targets fulfilled by units under the provincial office of commerce were better than the previous year and exceeded their annual targets. The total volume of commodity purchases increased 12.55 percent over the previous year. The volume of pure commodity sales increased 8.86 percent. The level of circulation cost was 6.53 percent, a decline of 3.26 percent from the previous year. Circulating funds turned over 3.73 times, 0.39 times faster than the previous year. Profits realized in 1983 increased 27.03 percent over the previous year, surpassing the previous record. The profit and tax rate on the circulating funds of enterprises was 25.64 percent, 5.48 percent higher than the previous year. Of this, the rate of increase was 27.18 percent. All these achievements were scored mainly because of the adoption of various effective measures centered on the improvement of economic results. The specific measures were as follows:

I. Actively Support Industrial Departments in Increasing the Production of Readily Marketable Products.

1. Help industrial departments solve the problems of fuel and raw material shortages. All arrangements were made and work was done properly ahead of time for the fuel and raw materials carried by commercial departments. In accordance with the state plan, guarantees were given to the supplies needed for the production of popular-brand and high-quality products, readily marketable products in short supply on the market and the people's daily necessities.

2. Strengthen the coordination between industry and commerce, provide timely market information for industrial departments and serve as their good advisers. Zhejiang's commercial departments adhered to the principle of taking a planned economy as a predominant factor and market regulation as a supplement in purchasing and marketing activities and adopted different purchasing and marketing forms according to different commodities. They volunteered to provide market information for industrial departments and helped factories increase the production of products with new designs and new varieties and open up new markets for commodities. For instance, the Hangzhou Daily-use Small-commodity Wholesale Co. provided timely market information to the Xiaoshan Engineering Plastics Plant and helped it change the lineup and increase the variety of products. This plant developed 15 new plastic products for daily use including plastic buckets, baskets for washing rice and cases of thermos bottles, increasing the value of the procurement by commercial departments from the original 600,000 yuan to 3 million yuan. They also constantly cooperated with factories in solving major technical problems and carrying out renovation and promoted market competition with "new varieties, complete specifications, high quality and low prices." Take the plastic slippers made in Hangzhou, for example, Due to their constantly improved designs and styles, 1.685 million yuan worth of transactions were made at the provincial supply meeting held at the end of 1983, an increase of 83 percent over the corresponding period of 1982.

3. Carry out joint management and marketing between industrial and commercial departments, open up markets for local products and step up the development of production. In February of 1983, the Hangzhou Department Store and the Hangzhou Toothpaste Factory began joint management of the toothpaste business in accordance with the principle of sharing profits and risks between industrial and commercial departments. In the first half of 1983, their production and sales volume increased 10 and 22 percent, respectively, and their profits increased 11,800 yuan over the corresponding period of the preceding year.

Thanks to closer coordination between industrial and commercial departments, in 1983 the total volume of procurement of Zhejiang's locally manufactured goods increased 16.73 percent over the preceding year.

II. Actively Support Agricultural Departments in Developing Commodity Production.

In addition to doing a vigorous job in supplying the means of agricultural production, Zhejiang's commercial departments supported and helped communes, brigades as well as individual commune members develop a number of households specializing in raising hogs and chickens. The units under the Zhejiang Provincial Office of Commerce overfulfilled their annual plan for the procurement of farm and sideline products by 5.9 percent, an increase of 0.5 percent over the preceding year, and therefore made a contribution to making arrangements for the provincial market and supporting neighboring provinces and municipalities.

III. Adopt Varied and Flexible Management Methods to Expand Commodity Sales.

Commercial departments throughout the province emancipated minds, eased policies and, in accordance with the requirements of more channels, established fewer links and an open circulation system and actively expanded commodity sales in view of the needs of the rural areas and the whole country.

1. Unclog the commodity circulation channels between rural and urban areas and transport more manufactured goods to rural areas. Zhejiang's commercial departments relied positively on rural grassroots supply and marketing cooperatives, strengthened the force of external association, acquired timely information on the needs of the rural market and used different forms to deliver goods to rural areas. At the same time, they also adopted the following measures for grassroots supply and marketing cooperatives: Allocating commodities in advance, postponing the collection of payment, transferring commodities from one warehouse to another for sales on commission, paying interest in the form of deductions and increasing the rate of commissions for transferring commodities. All localities also adopted such methods as establishing joint management between state-run wholesale departments to lower levels (handling both wholesale and retail businesses) and increasing the supply to collective commercial units and individual peddlers. The volume of commodities sold in 1983 to collective commercial units and individual peddlers increased 20.2 and 298.2 percent, respectively, over the preceding year.

2. Send out salesmen to all places of the country to promote the sales of Zhejiang's industrial products on a larger scale. In the beginning of 1983, department stores and hardware, communications and chemical industrial departments used various forms to promote vigorously the sales of Zhejiang's industrial products outside the province. According to the statistics compiled at the national silk stock replenishing meeting, the Hangzhou knitwear, general merchandise and stationary stock replenishing meeting and the Hangzhou summer textile and clothing sales exhibition, over 900 enterprises throughout the country sent people to participate at these meetings and 86.43 million yuan of transactions were made, showing an increase over the corresponding period of the preceding year.

3. Tap the internal potential of state-run commercial units to expand commodity sales. Commercial departments in all localities extensively adopted multifarious methods such as opening up night markets, delivering goods to rural areas or factories, peddling along streets and selling goods by mail. They tried in a hundred and one ways to expand sales and increase profits.

IV. Improve Catering and Service Trades to Increase Competitiveness.

Under the situation of acute market competition, catering and service trades brought into full play their advantages and increased profits year after year. The profits realized by catering and service trades in 1983 increased

40.5 percent over the preceding year. After deducting 4.83 million yuan of withdrawals from after-tax profits for payment of wages on a profit-sharing basis, the actual increase of profits was 11.4 percent, the highest in recent years. This was achieved mainly by increasing service items, improving equipment conditions, expanding business operations, strengthening the market forecast of catering and service trades and understanding the changes of demand. In recent years, all localities also achieved marked economic results by using various special-purpose funds to rebuild and remodel business buildings. For example, the Hangzhou City Service Co. remodeled several hotels and increased income by 205,000 yuan in the same year.

V. Focus on Potential Tapping, Renovation and Transformation of Industries Run by Commercial Enterprises and Develop Their Production.

Since 1979, industries run by commercial enterprises in Zhejiang Province (not including meat cold storage plants) have carried out 157 workshop remodeling and equipment renewal projects (covering a floor space of 142,000 square meters) with a total investment of 25.48 million yuan. By the end of 1983, 90 projects had been completed and put into operation. This helped improve the situation in which some industries run by commercial enterprises had simple and crude factory buildings, obsolete equipment and outdated techniques. It also helped improve economic results and increase the profits realized by such industries by about 10 percent a year during the 1978-1982 period. In 1983 the profits realized by such industries again increased 20.66 percent over the preceding year. Take soy sauce production techniques, for example. As a result of renovation, most factories now use the low-salt, solid-state, water-heating fermentation technique, raising the protein utilization rate by about 16 percent. This has not only saved raw materials but also improved the quality of products. Take the Huzhou No 1 Food Industry Plant, for example. By carrying out the technical transformation of model-560 cookie machines, this plant increased the variety of its products from the original 1 kind to 26 kinds under 5 categories and increased its output from 1,700 tons in 1980 to 3,000 tons.

VI. Vigorously Improve Administration and Management to Increase Economic Results in an All-round Way.

In recent years, while vigorously expanding commodity sales, commercial departments in all localities made concentrated efforts to improve enterprise management and carry out the campaign of increasing income and reducing expenditures. They paid due attention to both administration and management and accelerated the improvement of economic results.

1. Assign plans for increasing income and reducing expenditures to all levels and exercise target control. Beginning in 1982, the provincial office of commerce set forth fighting goals at the beginning of every year for improving administration and management and striving to increase income and reduce expenditures. It urged commercial departments throughout

the province to expand purchase and sales actively, utilize funds rationally, lower the cost of production, reduce losses and damages, consolidate money-losing enterprises and realize the goal of increasing profits and reducing expenditures by 30 million yuan by the year 1983. During the course of implementation, it ensured that targets were fulfilled, measures were enacted and inspection was timely so as to guarantee the fulfillment of the task of increasing income and reducing expenditures.

2. Vigorously carry out evaluations and appraisals based on the computation of points for various targets of economic results. In order to meet the need of commercial departments to evaluate the economic results of many trades, levels and links, in 1982 commercial departments throughout the province began to adopt on a trial basis a method that combined central and local authorities, computed points devised for various targets and carried out evaluations at each level. At the beginning of 1983, based on the point-counting evaluation method and by comparing the level of advancement in targets, the rate of increase in economic results and the degree of subjective efforts, Zhejiang Province selected 10 county commercial bureaus which made outstanding achievements in improving economic results in 1982. Various companies at the provincial level also selected a number of advanced companies at the county and city levels to be included in the notice of commendation that was circulated throughout the province. This attracted extensive attention from commercial units and helped change their previous practice of evaluating advanced units simply according to their previous practice of evaluating advanced units simply according to their final work reports. After the notice revealed the situation of various counties and cities in fulfilling their targets for the first half of 1983, many county commercial bureaus conducted special analyses and studies and set forth new orientations for endeavors. After over 2 years of trial practice, the campaign to emulate, learn from, catch up with, help and surpass each other in advancement and economic results has gradually become a system, thereby accelerating the improvement of economic results throughout the province. The major contents of this system are: Formulate a plan for each level to increase production, practice economy and exercise target control in the beginning of a year; ensure fulfillment and improvement of the plans, carry out inspection and publish the results after 6 months; and conduct evaluation and appraisal and sum up and exchange experiences at the end of the year. The basic objective of this system is to improve economic results.

3. Carry out the analysis of economic activities in various forms. In recent years, commercial departments and enterprises at all levels have extensively carried out routine analysis activities. The provincial office of commerce has paid special attention to outstanding issues in different periods and has organized people to carry out the analysis of typical cases and key issues. All prefectural and city commercial bureaus also conducted the analysis of key issues in a city or county. In 1982, in view of the situation in which a large number of unmarketable commodities were stock-piled and the efficiency of fund utilization was reduced, the provincial office of commerce assigned some people to stay in Jinhua City to investigate

the situation in the lineup of manufactured goods in stock. After carrying out on-the-spot investigations and analyses of typical cases, they summed up the major causes of the stockpiling of unmarketable goods and made suggestions for industrial departments to readjust the product mix and so on, achieving relatively good results. For the purpose of turning deficits into profits and improving economic results, the provincial trade and industry company conducted a comparative analysis of the Zhuji and the Wenling County food industry plants where the scale of enterprise, equipment conditions and the variety of products were basically the same but major economic targets were substantially different. Through the analysis, this company summed up the experiences gained by the Zhuji Food Industry Plant in increasing economic results in consecutive years, discovered the major causes and lessons of the deficits caused by poor management at the Wenling Food Industry Plant, located where the gap was in production and management and proposed measures for improvement. This was a great impetus to the Wenling County Food Industry Plant. In late October 1982, this plant had a deficit of 43,800 yuan. In November and December, it roused itself to catch up and registered a 4.9-fold increase in average monthly output value and a 4.8-fold increase in the sales of products. This plant made a profit of 57,200 yuan in 2 months. After paying for its losses in the first 10 months, this plant still had a profit of 13,400 yuan.

4. Vigorously improve the lineup of inventory and increase the efficiency of fund utilization. Maintaining and marketability of commodities in stock is an important condition for expanding commodity sales and increasing the efficiency of fund utilization. The provincial office of commerce usually carried out its inventory every year as soon as the Spring Festival was over to prevent commodities from being overstocked and sold out and to ensure that the purchases and sales of commodities were kept track of. In the third quarter of 1983, the provincial office of commerce again carried out the work of sorting out commodities. While investigating the situation in the inventory and disposal of commodities over the past 6 months or so, the office seized the peak period of the market to dispose of overstocked commodities in a timely manner. Many localities gained good experiences and discovered good methods in this regard. For example, the analysis of the turnover period, of guaranteed interest, of guaranteed capital, of minor categories of commodities and of market forecasts; the door-to-door sales; the sales on commission; the processing and makeover of commodities; and the favorable economic treatment all proved to be effective measures. The proportion of imperfect commodities in stock declined from 15 percent at the end of 1981 to about 3.5 percent at the end of 1983. This figure is becoming basically normal. Losses caused by the disposal of commodities were also reduced year after year. Thanks to the faster turnover of circulating funds, the payment of interest was reduced by 12 percent compared with 1982, saving 1,440 yuan of expenses.

5. Vigorously cut down on expenses. Although the increase of certain transport costs and the use of insurance services added to their expenses, commercial departments at all levels managed to cut down on expenses by

adhering to the principle of running enterprises industriously and thriftily and conducting careful calculation and strict budgeting. For example, they vigorously promoted the "four direct allocations," chose rational routes and means of transport and kept their transport and miscellaneous costs at the same level as in the preceding year. Take the Hangzhou Department Store, for example. In the transport of commodities, it promoted four "compares" (compare the means of transport, time spent waiting for transport, days spent on the road and damage to commodities) and one "compute" (compute the interest on occupied funds). It also chose rational routes and the means of transport. Beginning in 1981, it replaced railway transport with highway transport for 26 customers on the transport line of 7 highways across Zhejiang Province. It adopted a nonstop transport method to transport over 38,000 tons of commodities, reducing the time required for commodity transport by about 2 weeks on the average and saving 176,000 yuan based on the comprehensive computation of costs (including transport expenses, lighterage, protective packaging, the cost of damages and interest). Commercial departments throughout the province saved 17.64 million yuan relative to the reduction in the cost level.

6. Vigorously turn deficits into profits. In the beginning of 1983, the provincial office of commerce urged all localities to turn deficits into profits and to persist in conducting monthly inspections and quarterly analyses of money-losing enterprises. After the State Council transmitted its document, the office organized a special investigation group and sent it to major money-losing enterprises to conduct "group consultations," hold symposiums on turning deficits into profits, implement measures for reducing deficits and demand that achievements be made. The provincial office of commerce and the provincial food industry company jointly organized a group of accountants and economic experts. Personally led by a deputy director of the office and a manager of the company, this group went to a major money-losing unit--the Ruian County Food Industry Co.--to analyze the causes of deficits, propose measures for consolidation and restructuring and help formulate deficit reduction plans. This group also convened an on-the-spot symposium for major money-losing enterprises with over 100,000 yuan of deficits to help them analyze the causes of deficits one by one and implement deficit reduction plans. As a result, in 1983, the number of money-losing enterprises under the commercial department of Zhejiang Province was reduced by 37 from the 123 of the previous year and their deficits were reduced by 2.23 million yuan. Of this, deficits caused by factors other than policies declined 78 percent--an initial success.

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DOMESTIC TRADE

POOR COMMODITY CIRCULATION IN RURAL AREAS EXPLAINED

Kunming YUNNAN RIBAO in Chinese 20 Apr 84 p 3

[Article by Yuan Ruiqi [5913 3843 3825]: "Why Should There Be a Situation of 'Hard To Sell' and 'Hard To Buy' in Our Countryside?"]

[Text] In the countryside of our province we can now everywhere witness the moving sight of a feverish development of commodity production, but we can also hear everywhere the loud and impatient complaints that it is "hard to sell" and "hard to buy" anything. Last year, one household specializing in grain trade had to deliver 36,000 jin of marketable grain he had sold the state. He specially hired a worker, and that man had to stand in line for 25 days, which cost 50 yuan in wages. There was another specialized household which last year had produced 15 tons of water caltrops, but due to obstructions in transportation channels 4 tons rotted and had to be discarded, causing a loss of 1,200 yuan. It is also an even more common sight to see peasants queue up to buy walking tractors.

Where lies the crux of the present problem of the "hard to sell, hard to buy" phenomenon in the countryside? Some comrades are of the opinion that the cause of not being able to sell is that the peasants are producing too much and that the difficulty in buying is due to the fact that there is a shortage of certain things urgently needed by the peasants. Is this really true? We have to say that it is true but not entirely true. It is a fact that there has been a great increase in recent years in the production of agricultural and sideline products; there is "much," but this "much" is relative. Last year, the per-person average in our province was 570 jin of grain, 17 jin of pork, 8 jin of vegetable oil, 2 jin of eggs and 1 and $\frac{1}{2}$ jin of fish. These figures reveal that there is really not "too much" of the things produced in the countryside; rather, there is not even enough. To satisfy the daily growing material and cultural needs of the masses will still require great efforts to develop commodity production further. Why is it then that in spite of the shortage of commodities, there is still this problem of "hard to sell"? Searching for the reason, we find that the main reason is that work on commodity circulation in our province is not yet suited to the two transformations now taking place in the countryside. The following will demonstrate this point:

The unsuitable business ideology. For a long time past, the rural economy of our province was one of self-sufficiency and semi-self-sufficiency. Over 80 percent of the products were consumed by the peasants themselves, and only the limited amounts left over were turned over to the area of commodity circulation. There was a limited amount and little variety of commodities, and the scope of circulation was small. In the last few years, rural commodity production has undergone an unprecedentedly flourishing development. While the number of commodities coming into circulation has much increased, our way of thinking has not yet caught up with the new situation brought about by the development of production. The business ideology of some of our comrades still remains at the stage of simple commodity barter under the conditions of self-sufficiency and semi-self-sufficiency. Whenever they hear the peasants complain of the difficulties of selling, these comrades assume that there is an overproduction of agricultural and sideline products, and they will not be able to seek the reason in the sphere of circulation. The fact is that the situation of "too many" and "too few" commodities is relative and dialectic. Certain commodities may at one time and in one place be overabundant, but not so with regard to the entire country or the entire province, where their supply may be even utterly insufficient. It frequently happens that many types of commodities are oversupplied in place A but short in place B, plentiful here and short there, abundant in the producing area and short in the marketing area. For instance, in grain-producing areas grain may be plentiful, but there may be a shortage of the commodities of a diversified economy. In tea-producing areas, tea leaves are plentiful, but there may be a shortage of food grain. The rural areas may have an abundance of agricultural and sideline products, but these may be short in the cities. The fruit-producing areas may have difficulties finding buyers for the fruits that are much in demand in the marketing areas of the cities. The grain-producing areas may find it difficult to sell grain, while the grain-short areas may find it difficult to buy grain. Only by changing the backward condition of our commodity circulation, by opening up the channels of circulation and by organizing the circulation of commodities can a fundamental solution be found for the problem of "difficult to sell."

The unsuitable business method. For many years, due to the "leftist" ideological influence, only "single enterprise" business was permitted, and a "multiple enterprise" system was not permitted, so that it was customary for certain commodities to have single channels and for circulation not to be channeled through a number of different channels. Up to this day, the "single enterprise" business method has not yet been fully remedied. There was the case of an individual entrepreneur in Jincheng Commune of Jinning County who opened a stewed duck shop but was refused a supply of ducks by the supply and marketing cooperative with the explanation that they raised ducks for the needs of the people and would not support an individual trying to get rich. The "single enterprise" business method was practicable in the past when things were short, to get along in the "days of poverty"; the solution was then to issue only an invoice for the supply of a limited amount. The method is now no longer suitable, when things are more plentiful, in order to get along

in the "days of abundance." That is what causes the difficulties in buying as well as in selling. Only by instituting a diversity of business forms, opening many channels of circulation and allowing state-run and collective-run enterprises as well as individuals to engage in sales and transportation can the problem of "hard to sell" be solved.

The unsuitable commercial storage and transportation facilities. Due to the fact that we used to emphasize production and neglect circulation, there was a disregard for the provision of basic installations for our commercial activities. Warehouses were few and of limited capacity, and in addition transport facilities were badly lacking in our province. It was also forbidden in the past for individuals to organize a train of horses or oxen to transport agricultural and sideline products, and for a long time there was a discrepancy between commercial storage and transport facilities and commodity production. Because commodities were few, this discrepancy was not very apparent in the past, but now after rural commodity production has developed, this problem of insufficient storage and transportation has become exposed. If it is now difficult in many parts of our province to sell grain, one of the major reasons is the serious lack of storage facilities. In 1982, in 44 counties throughout the province, there was a shortage of 415 million jin of storage space, and the situation was particularly critical for grain storage along the lines of communication, in Kunming, Kaiyuan, Qujing, Xiaguan and Boashan.

As for the difficulties in purchasing, it is certainly a consequence of the fact that the income of the peasants has generally increased in the last few years and that they are now emphatically demanding to be able to buy more of the means of production and means of livelihood, which causes certain commodities to be in short supply. However, there are also some problems in the area of commodity circulation as well as the problem of goods found not suitable for the markets. There is an abundance of chemical fertilizer in the county seat of Eshan, but in certain mountain areas the supply and marketing cooperatives are unable to supply it, making it difficult for the peasants in the mountain area to buy chemical fertilizer. The problem is the same with the means of livelihood. To solve the problem of difficulties in buying, it is therefore necessary not only to produce more of the means of production and means of livelihood that the peasants urgently require but also to open up the channels of commodity circulation and solve the problem of clearing away the impediments in these channels.

Viewed as a problem of understanding, we see that the cause of these difficulties in buying and selling is mainly that the people do not fully understand the important role and significance of commodity circulation in the entire structure of socialist reproduction. There is emphasis on production, especially on grain production, but neglect of circulation and of consumption. There is also a lack of a correct understanding and evaluation of the new situation of greatly developed commodity production by specialized entrepreneurs in the countryside. We must look on the relationship between circulation and production as a dialectic one; circulation is the result of production as it is also the precondition

for production. On the one hand, only by opening up the channels of circulation and solving the problem of difficulties in selling can products be smoothly converted into commodities. Our specialized entrepreneurs engage in production in order to be able to sell and to exchange. Apart from the small amounts of grain, pork, vegetables, fruit, etc. which they consume themselves, most of their products are meant to be sold. It is therefore only by opening up the channels of circulation and markets for their products, and actually selling the products, that they can obtain due compensation for the live labor and materialized labor that they have invested, and the peasants will only then display a zeal for production. On the other hand, it is only by opening up the channels of circulation and solving the problem of difficulties in selling that the specialized households will expand reproduction. The specialized households have developed on the foundation of a self-sufficient and semi-self-sufficient economy. They display vitality in the development of commodity production, but the scale of their production is presently still rather small, the level of their productive strength is low and their products are also not yet very abundant. If these specialized entrepreneurs are to develop commodity production, it will be necessary for them to change from traditional and backward production methods, such as ox-drawn plowing, husking rice with mortar and pestle, etc., to modern production methods. That would mean to equip agriculture with advanced types of agricultural machinery, purchasing tractors, threshing machines, water pumps and other such agricultural machinery as well as with improved seeds, chemical fertilizer, compound feed and other such means of production.

In sum, the specialized households, whose special features are the production of commodities, will more and more rely on society. There will have to be exchanges, be it before or after production; without exchanges there would be no production. With unimpeded channels of circulation, production by these entrepreneurs will be smoothly carried on and developed. If there are impediments in the channels of circulation, the production of the specialized households will suffer loss and even total ruin. Even now when commodity production by specialized households has merely started in our province, these people already pour out grievances about obstructions in circulation and the difficulties of selling and of buying. If we do not change this situation, it will definitely have an adverse effect on the enthusiasm that has been running high among the peasants.

The present state of difficulties in buying and selling poses an important problem for the leadership at all levels, namely to achieve a correct disposition of the relationship between production and circulation under the conditions of the socialization of commodity production; whenever production takes a step forward, let circulation also take a step to catch up. Especially at the present juncture, it is extremely necessary to effect an early change in the backward condition of our circulation and to have commodity circulation first take a big step forward.

9808

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DOMESTIC TRADE

TRADE CENTERS FOR AGRICULTURAL AND SIDELINE PRODUCTS

Changsha HUNAN JINGJI XINXIBAO in Chinese 25 Apr 84 p 1

[Article by staff reporter: "Vice Governor Yang Huiquan Points out at Conference of Directors of All Industry and Commerce Bureaus of the Entire Province: Cities Must Operate Open Markets and Establish Trade Centers for Agricultural and Sideline Products"]

[Text] At the recently convened conference of all directors of industry and commerce bureaus of the entire province, Vice Governor Yang Huiquan [2799 0565 3123] spoke on the question of opening city markets and pointed out:

The cities must operate open markets, which must be open to the surrounding countryside, to all neighboring counties and even to the whole country; this is the key to invigorating our commodity circulation. We must give close attention to the central role of the cities in commodity circulation. The cities not only are the centers for trade in industrial products but must also become the collecting and distributing centers for agricultural and sideline products. We must realize that agricultural and sideline products will also have to pass through the central link, namely the cities, to be distributed further. We must have the locally produced agricultural and sideline products marketed far and wide and distributed all over the whole country. We must achieve a state in which each place supplies what the other place needs; there must be collection and distribution in order to satisfy the needs of both sides, of the buyers and the sellers. At present there is not yet an unimpeded interflow of commodities between city and countryside, there still are blockades and this fact demands of us that we raise our awareness one step further in order to work effectively to make the city markets become truly open markets.

The cities should also establish trade centers for agricultural and sideline products. The cities shall in the future have two centers serving as channels for commodity circulation: one is to be a trade center for industrial products, and one a trade center for agricultural and sideline products. The trade centers we are talking about are to be mainly wholesale trade centers. We must realize that in the wake of the full implementation of the spirit expressed in the Central Committee's Document No 1, there will be a swift and vigorous development of rural commodity

production. The quantity of commodities will increase, and large quantities of agricultural and sideline products will have to be marketed in the cities. Furthermore, following the development of rural commodity production, there will be a commensurate development of channels for commodity circulation, and the quantity of goods to be transported will grow larger and larger. To meet the needs arising from such large shipments of agricultural and sideline products, we must establish wholesale markets for agricultural and sideline products.

In addition, the collective commercial enterprises and individual commercial enterprises in the cities and the collective and individual transport service trade also need wholesale markets to provide them with an abundant source of goods. The wholesale market for agricultural and sideline products will in this way become the link in the trade between city and countryside. Cities and towns of county and higher rank must all establish wholesale markets for agricultural and sideline products. Key cities must, on the basis of already created economic activity networks, unify planning and rational overall arrangements and separately establish several wholesale markets for agricultural and sideline products. The wholesale markets may be established as comprehensive or as specialized in nature. The main question at this juncture is to determine adequate sites for the rural trade markets and for the wholesale markets for agricultural and sideline products in order to suit the needs of the peasants who are coming to town.

9808

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FOREIGN TRADE AND INVESTMENT

STRENGTHENING CENTRAL MANAGEMENT TO DEVELOP FOREIGN TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, Mar 84 pp 7-10

[Commentary by staff commentator: "We Must Strengthen Central and Unified Macro-management To Further Develop China's Foreign Trade"]

[Text] Under the guidance of the 3d Plenum of the 11th CPC Congress in determining the policy of opening up to the outside world, China's undertakings in foreign trade has flourished. Currently, the strategic position and effect of foreign trade in the development of the national economy compared to any time in the past has been far more penetrating than people know or recognize. In exploring how to organize China's experience in foreign trade more rationally, especially in the restructuring of the foreign trade system, we are faced with many new problems which we must continually research and explore. Currently, the problem of how to handle the central and unified management of foreign trade is both an important theoretical question for restructuring the foreign trade system and is an important practical problem for managing foreign trade. We must correctly recognize and appropriately handle these problems.

I. There Must Be a High Level of Central and Unified Macro-management for Socialist Foreign Trade

Strengthening the macro-management of foreign trade is to strengthen the guidance, influence and intervention of all of the state's departments and enterprises that engage in foreign trade activity. Because foreign trade is the exchange of labor service between nations, it involves the benefits of the state and the people. Intervention in foreign trade by the state has always existed; moreover, it is becoming continually stronger. From the time when the international market was formed, the state deeply entered into foreign trade, and goods and gunboats existed simultaneously in the newly opened international market. In the world today, any sovereign state, no matter what the nature of the country, fully utilizes its state apparatus and strives to influence its country's foreign trade; it is only that different nations pursue different policies and goals. Throughout history there indeed have been a few nations and peoples that have not exercised an effective influence on their own foreign trade. This is colonialism and semi-colonialism, but in the history of the world's economy, the outcome has always been tragic. Today, if we have people

with blind faith in freedom for enterprises and departments and who oppose central and unified management for the nation's foreign trade, then they are rather naive.

We must carry out highly centralized and unified macro-management for our foreign trade, and not only is this to draw on historical experiences and to face up to the world situation but, more importantly, this is an objective demand of the nature and law of the socialist economy.

First, due to the objective demands of socialized production and to the conditions created by the public ownership of the means of production, the socialist economy not only must but also can realize a planned economy. A planned economy requires that foreign trade, according to plans for the development of the national economy, determines the scale of imports and exports, the rate of development and the structure and volume of commodities and even the transport and time of arrival of the import and export of goods. If there is no unified and centralized management, foreign trade will be unable to be coordinated with the process of socialist reproduction and will be unable to promote the cycle of the economy, and this could even have an inauspicious counteraction.

Second, central and unified management is an important condition for improving the economic results of socialist foreign trade. The development of foreign trade must use the improvement of economic results as a premise. Under the conditions of socialism, foreign trade must strongly stress macro-economic results. This is because there is a great difference between commodity production under the conditions of socialism and the conditions of capitalism. The law of value under socialism is extremely restricted. Socialism's planned pricing to some extent deviates from value. This in no way is due to people being unaware of the actual value but to a great extent is due to intentional adjustments (certainly, they must be appropriate) for production, distribution and consumption. In China's foreign trade, there are great discrepancies in the costs of various export goods. Many imported products are imported at a high price and sold at a low price, and there is often a large degree of change in value. Under these circumstances, micro-economic results often are unable to reflect completely the economic results of foreign trade. Thus, macro-economic results hold an important position under the conditions of socialism. In order to cause the change in value to be reasonable and to realize macro-economic results, we must have an authoritative organization that supercedes departments and enterprises; it will then be possible to realize strong central and unified management.

Third, centralized management of socialist foreign trade is necessary to oppose international exploitation and to implement the policy of equalize and mutual benefit. China's foreign trade still faces the situation where the bourgeoisie and international monopoly groups hold a superior position in the world market. For a long time, the old international economic order placed a great number of countries and nationalities in an exploited position. After World War II, although a great change took place in the world situation, there was still no change in the international distribution

of labor and the basic structure of the international market. The upholders of the old order strove to protect their own vested interests, and besides the monopolizing and manipulating that they carried out on the international market, they often utilized the state apparatus on their own tools and thwarted Third World nations from developing their industries and national economies. Under this type of situation, if there is no central and unified management and we allow each enterprise to vie for themselves in the complex international market or if we allow foreign products without the least bit of resistance to gush into the domestic market, our economic situation will be seriously harmed.

It must be pointed out that we oppose international exploitation yet at the same time require our enterprises in practicing foreign trade activities to abide by international trade conventions and to stand by our policy of equality and mutual benefits. The nature of socialist foreign trade has determined that we have no need to dump goods abroad. However, if we have no central and unified management, we will engage in too many businesses abroad, there will be competitive sales at low prices and blind exporting and we will objectively harm the benefits to this country. Furthermore, we will become controlled by others and will be misrepresented and attacked.

Fourth, strengthening centralized management will better insure that the future restructuring of the foreign trade system will develop in a healthy direction. According to Marxism, with the development of productivity, our superstructure will need to transform production. This type of transformation, under the conditions of a private ownership system, is realized through violence. Under socialist conditions we can realize this through a conscious restructuring. With regard to this point, the restructuring of our economic system, including the foreign trade system, is imperative. Concerning the direction of the restructuring of this system, it will be to expand the autonomy of enterprises. With regard to macro-economic management, however, restructuring merely means changing one type of management system for another. It must be said that the relationship between decentralized management and centralized administration is one of dialectical unity; the two do not contradict or oppose each other. The more we decentralize management, the more we delegate power and the more we must centralize management. If we weakened the jurisdiction of macro-economic management, we would cause restructuring to go astray and management to sink into chaos and this would run counter to the goals of restructuring.

II. Important Measures in Our Current Strengthening of Central and Unified Macro-management

The basic functions of macro-management of foreign trade include the functions of policy decisions, planning, organization, adjustment, supervision and accounting. The forms and measures of macro-management have a different emphasis based on the different stages of historical development. In the early period of the People's Republic, we managed foreign trade mainly through strict control. After the socialist transformations

were complete, we mainly adopted the form of using the state to monopolize and unify management. This form extended to the end of the 1970's. In the past few years, due to the experimental restructuring of our system, the form of unified management gradually has changed to graded management. Currently, more than 500 enterprises in China are engaging in foreign trade activity and they are subordinate to each department and locality. Changes in the system raise new problems for the macro-management of foreign trade.

Concerning the actual circumstances of China's foreign trade, currently macro-management must stress strengthening in the following few respects:

First, we must strengthen the authority of administrative bodies over foreign trade. The Ministry of Foreign Economic Relations and Trade is the responsible department authorized by the state. It must be based on the lines and plans of the central government and the laws and decrees determined and announced by the National People's Congress. It must be responsible to the State Council, have full power to lead the country's work in foreign trade and organize the implementation and supervision of the state's relevant foreign trade laws, decrees and policies. It not only must lead its own subordinate foreign trade enterprises but must also lead the foreign trade business activities of other enterprises. If we do not have a unified body, each enterprise will do as it pleases and be unable to realize central and unified management.

Second, we must establish and perfect an examination and approval system for foreign trade enterprises. Under new circumstances, the number of newly established foreign trade enterprises is increasing and there are many departments and enterprises that need to develop their foreign trade business. This originally was a good thing; yet if we lack unified planning and centralized management, we will cause organizations and management to overlap, and human, financial and material waste will be great. Thus, we must have the whole situation in view and, according to economic, effective and coordinated measures, examine and approve them one by one. Applicant enterprises must possess certain conditions and bear certain tasks to be approved. The authority to approve must be concentrated in the responsible management departments.

Third, we must strengthen the examination and approval for issuing import and export licenses and plan as a whole the distribution and centralized management for the distribution and quotas for importing and exporting goods. The import and export permit system reflects the state's measures for the volume, specifications, means and direction of the flow of imported and exported goods. The permit system's development must proceed from an overall situation and should not comply with individual enterprises and departments. Thus, permits must be issued from a unified leading body.

Fourth, we must establish and perfect a standard for foreign trade management and a financial accounting system. Because our economic and pricing systems are vastly different from the international market, the foreign

trade accounting system has great peculiarities. Thus, we must establish a method for measuring the economic results of foreign trade. We will then be able to raise effectively the level of management for all foreign trade enterprises.

Fifth, we must rationally readjust the management of the distribution of labor, be able both to arouse enthusiasm in all respect and to coordinate actions and enter the international market in an orderly fashion.

Sixth, we must unify organization and draw up economic measures for supporting, encouraging and limiting the import and export of goods. Besides the usual management system, we must render special solutions for a few products with special problems. This is necessary, but measures for supporting, rewarding and limiting must proceed from the situation as a whole and must undergo overall management and long-term planning.

Seventh, we must unify the checking and appraising of each area and department that goes abroad to hold a sales exhibition and that holds small domestic trade fairs. Sales exhibitions and trade fairs not only relate to the costs and expenditures of foreign trade and the balance of relations between nations but are also related to coordinated commodities management. Thus, this in no way is a matter for individual departments and enterprises and should have unified management.

Further, foreign trade as a business and a system must also have an overall plan and method for its plans, wages and cadre training.

III. Improving the Science of Macro-management

The macro-management of foreign trade is the same as the macro-management of other economic departments. It is both an art of leadership and a science. The vitality of macro-management lies in its science. The more management is centralized the more it must stress science, otherwise it will be easy to commit the mistakes of bureaucratism and of issuing arbitrary orders. We must strive to improve in every respect the science of managing macro-economic trade.

First, in our guiding ideology we must clearly establish the viewpoint that the first task of foreign trade is to promote the development of our nation's economy. The key to improving China's economic development and the livelihood of the people in the final analysis lies in expanding and raising the level of industry and in opening up the domestic market. The key to the effect of foreign trade lies in promoting a flourishing domestic market to the greatest extent possible. "Promoting production, domestic trade and scientific research" is the long-term task of foreign trade. Thus, the macro-management of foreign trade must proceed from the reality of China's national conditions as well as from the international situation. We must earnestly analyze the necessary and possible effects of foreign trade on the development of our social economy. We must neither underestimate nor blindly exaggerate. We must regularly study the dynamic

relationship between foreign trade and the development of the national economy and thus raise the appropriate measures for management. All measures must be advantageous for the basic benefits of economic development.

Second, we must establish a complete macroscopic policy-making procedure. We must cause the macro-management of foreign trade as much as possible to correspond to objective reality. It is extremely difficult to abandon the perfect democratic policy-making procedure. Because the macroscopic policy making for foreign trade is usually related to other economic departments, it affects the entire situation of the national economy, is fairly complex and must have ample channels and heed other opinions in every respect. The great majority of economic measures must go through such processes as complete inspections, analytical proof and a shifting through the selection of plans. We must as much as possible avoid closed-door decisions by a few people. We can then reduce losses.

Third, we must make use of an intelligence and information system that is as perfect as possible. The basis for policy decisions is dependable data, statistics and information. The information necessary for foreign trade macroscopic policy decisions at the very least must include information on the international economy and market, the operations of foreign trade business and the domestic market. There is a vast amount of news on all of these aspects. Thus, we must be adept at selecting and cause the information to flow systematically and continually to the policy-making departments where it can be effectively used. Currently, foreign trade news is fragmentary and delayed and is far from being up to systematic and modern standards. It must quickly be perfected.

Fourth, we must cause measures for administrative management and economic regulation to be combined. In the macro-management of foreign trade, besides using administrative measures, we must use measures for regulating the economy and effectively combine the two. We will then have even better results. In the macro-management of China's foreign trade, there are many measures for regulating the economy that we can use, for example, import and export prices, tax collection, credit, the welfare system, etc. Yet we have not utilized these equally and the serious shortcoming of inflexibility exists. At the same time as we strengthen centralized management, we must set more flexible and effective measures.

Fifth, we must continually improve the quality and economic responsibilities of macro-management personnel. All important personnel involved in macroscopic policy decisions and management organizations must possess the necessary specialized knowledge and must continually be replenished and replaced. The rhythm and actions of the economy today are quick, especially in the ever-changing international economy and world market. If macro-management personnel lack sensitivity and foresight toward economic situations, not only will they be unable to make timely policy decisions, draw up measures and help enterprises make changes that suit the situation but they will also hamper the initiative of enterprises and cause actions to be uncoordinated in every respect. They will counteract their strengths, and this violates the principle of macro-management.

The science of macro-management must still be manifest in the feedback in the implementation of policy decisions and in the function of making timely corrections. Thus, we must regularly look back and criticize our policy decisions and continually summarize our experiences. We must, based on the circumstances, bear a definite economic burden for policy decision losses caused by subjective factors, for serious errors that occur during implementation and for those who create great economic losses. This way, we will be able to maintain earnestness in our macroscopic policy decisions.

Finally, it must be pointed out that the macro-management of foreign trade not only is a matter for the concerned departments but must also be a joint responsibility of comprehensive departments and other departments. It is also extremely necessary to establish high-level coordinated organizations.

When macro-management is strengthened, the micro-management of enterprises then has a direction. The level of management will then gradually rise and foreign trade on the basis of improving economic results will develop in a healthy direction.

12437

CSO: 4006/513

FOREIGN TRADE AND INVESTMENT

DEPUTY MAYOR'S REPORT ON FOREIGN TRADE

SK140603 Tianjin TIANJIN RIBAO in Chinese 6 Apr 84 p 2

["Excerpts" of written speech by Deputy Mayor Li Lanqing at the 2d session of the 10th Tianjin Municipal People's Congress: "Emancipate the Mind, Work in a Down-to-earth Manner, and Create a New Situation in Foreign Trade and Foreign Affairs"]

[Text] 1. A Brief Review of the Foreign Trade and Foreign Affairs of 1983

In 1983, our municipality faced a very rigid situation in foreign economic and trading work. On the part of the international market, the crisis of the capitalist economy, whose depression developed to the extreme (the fourth quarter of last year witnessed some recovery, but it did not have great influence on the year's foreign trade), and the devaluation of various currencies adversely affected our export. On our part, the various factors in the systems, prices, industrial production and foreign trade operation created great difficulties to our foreign economy and trade. Facing up to such a situation, the masses of staff and workers on the foreign economic and trading front worked vigorously and, with the support of other relevant departments, concentrated efforts on the following 10 major fields, fulfilling their tasks and laying a solid foundation for the creation of a new situation.

1) Despite the serious depression of the international market, the foreign exchange earned from last year's export was greater than in 1982. By the end of 1983, we had procured 2.94 billion yuan of commodities for export, an increase of 9.5 percent over 1982, and earned \$1.43 billion from exports through our port, exceeding the 1982 figure. 2) We achieved new development in using foreign funds to establish China-foreign joint ventures. Contracts on projects directly using foreign funds signed with foreign countries totaled \$19.3 million. They included 11 compensation trade projects, 7 joint ventures, 1 cooperation project and 4 leasing projects. We also signed contracts involving \$6 million on 110 projects of processing and assembling imported materials. 3) Various "windows" opened to foreign countries were utilised to actively import foreign advanced technology. Through the concerted efforts of industrial and trading departments, contracts for 150 projects were signed with foreign countries. These projects, upon completion, will play an important role in upgrading and updating the products of our municipality and improving our technological and technical levels. 4) A new breakthrough was achieved

in foreign economic and technical cooperation and labor service contracts. Last year, we signed four construction and industrial labor service contracts with foreign countries and opened two joint ventures abroad, initially opening a road for Tianjin to invest and set up plants abroad. 5) New trading channels were opened to enable more export commodities of our municipality to enter the international market. Last year, we held commodity trade fairs in Macao, Sweden, Tunisia and other countries and regions and participated in international expositions. We established in Hong Kong a joint venture--"Tianjin-Matsu Corporation"--with Kanematsu Koshosha Company, one of the 10 largest companies in Japan, and set up a "Tianjin Section" in the "China Trading Center" in the United States. We successfully sponsored in our municipality meetings for discussions on technology import and foreign economy and trade. 6) We developed technical exchanges and imports through exhibitions of foreign new technology and equipment. Last year, we held 22 such exhibitions and more than 100 meetings for technical exchanges. 7) We disposed of stockpiled goods to reduce occupied funds. In the last quarter of last year, we adopted resolute measures to organize exports on a large scale and held trade fairs for export commodities to be sold domestically, thus reducing stockpiled goods and accelerating the circulation of funds. 8) Preparation for the basic and service facilities for foreign economy and trade was accelerated. The construction of relevant basic facilities was stepped up in order to further develop our municipality's foreign economy and trade, and tourism. 9) Great efforts were exerted to vacate berths and ease the strained situation in berthing, and a new record was set in harbor loading and unloading efficiency. With the concern of the leading persons of the State Council and the concerted efforts of the staff and workers of the whole harbor and other relevant departments, we won successes in two rush berth-vacating tasks. The harbor handled more than 15 million tons of cargo in the year, creating a new record in loading and unloading efficiency. [SK140753] 10) Foreign affairs and tourism showed new development. Last year, our foreign affairs departments received more than 45,000 foreign guests and sent more than 2,500 persons abroad for short visits, thus strengthening the municipality's foreign relations and promoting economic and technical cooperation. Tourist departments received more than 38,000 foreign tourists from more than 90 countries, an increase of 10 percent over 1982.

Customhouses, commodity inspection units, the Bank of China, and other units also did a great amount of work, achieved remarkable results, and made contributions to the municipality's foreign economy and trade.

2. The Situation and Tasks of the Municipality's Foreign Economy and Trade in 1984

Following the changes in foreign and domestic economic situations, we shall face many new situations and new problems in foreign economy and trade in 1984. We should further emancipate our minds, boldly implement the open policy, give full play to our advantages as a port city, foster the strategic idea of serving the world market, do a better job in absorbing and utilizing foreign funds, accelerate the import of foreign advanced technology, vigorously expand foreign market, greatly develop construction contracts and labor service cooperation with foreign countries, actively carry out friendly foreign exchanges, and open up a new situation in the municipality's foreign exchanges, and open up

a new situation in the municipality's foreign economy, trade, and foreign affairs. We should successfully fulfill the following 10 tasks: 1) blaze a trail and actively develop foreign trade aiming at improving economic results; 2) emancipate the mind, speed up the tempo in foreign fund utilization, and strive to increase our China-foreign joint ventures to 50 by the end of this year; 3) accelerate the development of the Bohai economic zone and harbor construction; 4) import talented foreign people and accelerate the training of our own talented personnel to promote the four modernizations; 5) achieve new developments in economic and technical cooperation with foreign countries; 6) step up the construction of service facilities for foreign economy and trade; 7) continue to hold economic and technical exchanges with foreign countries and sponsor exhibitions for foreign countries to promote foreign trade and technical cooperation; 8) do a good job in discussions and signing contracts with foreign countries on technology and equipment imports; 9) further successfully carry out foreign affairs, develop economic diplomacy, and extend foreign friendly activities; 10) open up more avenues for tourism and offer quality service.

The tasks for foreign economy and trade in 1984 are very arduous. All the staff members and workers of our foreign economic and trading departments and foreign affairs departments will emancipate their minds and work in a down-to-earth manner in line with the resolutions of this session and strive to open up a new situation in the municipality's foreign economy, trade, and foreign affairs.

CSO: 4006/601

FOREIGN TRADE AND INVESTMENT

HAINAN, FOREIGN FIRMS SIGN AGREEMENTS ON JOINT VENTURES

HK141426 Haikou Hainan Island Service in Mandarin 0330 GMT 14 Jun 84

[Excerpts] To speed up developing and building Hainan Island, the Hainan International Trust and Trading Company recently reached agreements with Hong Kong and foreign firms on setting up joint ventures in electronics, computers, electrical household appliances, and communications work and in building a large cement plant in [words indistinct] county. The total amount of investments will reach \$61 million.

The agreement on setting up a joint venture in electronics, electronic computers, and assembly of electrical household appliances was signed by (Mr Ma Jin) of Hong Kong (Sigma) Electronics and Computers Company Limited and Dr (Shen Jipo) of Oxford University in the United States. The (Sigma) Electronics and Computers Company Limited of the Hong Kong side will invest \$300,000 to import inspection instruments, tools, and accessories, will provide technical guidance, and will cooperate in production. Our side will provide \$700,000 capital and will provide factory premises and labor forces. The period of cooperation will be 5 years. The products will be sold at home and abroad.

To develop our region's building material industry, (Feng Yude) of the (Zongtai) International Trading Company Limited, Thailand, recently came to our region to sign an agreement on building a cement plant with an annual capacity of 500,000 to 1 million tons of cement, in (Lutianling) near a limestone mine in (Yajing) District, Danxian County. The total amount of investment will be \$60 million. The Thai side will be responsible for providing capital, equipment, and technology and our side will provide land, labor forces, resources, raw materials and factory premises. The period of cooperation will be 20 to 25 years. The Thai side will have exclusive rights to sell 50 percent of the products.

CSO: 4006/601

FOREIGN TRADE AND INVESTMENT

BRIEFS

ANGOLAN TRADE MINISTER VISITS--23 June [ANGOP]--Mr Ismael Martins, the Angolan minister of foreign trade left Luanda on 8 June for an Asian tour which takes him to the People's Republic of China, Vietnam and India. While in China--the first leg of this Asian tour--Mr Ismael Martins and his counterpart, Mr [sic] Chen Muhua, signed a commercial cooperation accord between the two countries in Beijing on 12 June. On that occasion, through Mr Muhua's statements China showed its disposition to give economic aid to Angola. The Chinese minister did not indicate the exact amount involved, but he specified that it will depend on the economic capacities [words indistinct]. He added that it is China's desire to establish long-term friendly relations with the People's Republic of Angola. Still on that occasion, Mr Muhua offered a 1,000 metric tons of flour to Angola, with a view to alleviating the effects of the drought which has hit several parts of the Angolan territory. [Excerpt] [MB240724 Luanda ANGOP in French 0900 GMT 24 Jun 84]

GUANGDONG EXHIBITION IN JORDAN--Amman, 1 Jun (XINHUA)--The 11-day Chinese Guangdong import and export sale exhibition concluded here today. The exhibition displayed goods worth more than \$50,000 and all of them were sold out. During the exhibition, the Guangdong Import and Export Company also concluded transactions, totaling \$900,000, with businessmen from Kuwait, Syria, Lebanon, and other countries. [Summary] [OW160257 Beijing XINHUA Domestic Service in Chinese 1653 GMT 1 Jun 84 OW]

HENAN, KANSAS SIGN AGREEMENTS--Henan Governor He Zhukang and Kansas State Governor John Carlin held talks in the Henan People's Hall this morning. They also signed seven agreements. They first held frank and cordial talks on further strengthening bilateral relations of friendship and cooperation. Afterwards they signed seven agreements: an agreement on agriculture, agricultural trade, technology, commercial, and trading cooperation; a document of agreement on cooperation in agriculture, agricultural trade, and technology; an agreement on cooperation in commerce and trade; a document of agreement on energy development and cooperation; an agreement on academic cooperation; an agreement on transport and telecommunications development and cooperation; and an agreement on cultural and industrial exchanges at the Kansas 1984 state fair. Vice Governor Yue Xiaoxia and responsible comrades of departments concerned attended the signing ceremony. [Excerpt] [HK230323 Zhengzhou Henan Provincial Service in Mandarin 1230 GMT 22 Jun 84]

TOURIST PRODUCT SALES--Production of China's tourist products has developed rapidly in recent years. Sales of tourist products topped \$340 million in 1983, an increase of 500 percent over 1978. In the past 5 years, the income from tourist products accounted for 38 percent of foreign-exchange earnings from tourism. [Summary] [OW160347 Beijing Domestic Service in Mandarin 1600 GMT 4 Jun 84 OW]

CSO: 4006/601

SPECIAL ECONOMIC ZONES

ZHUHAI CITY STEPS UP SPECIAL ECONOMIC ZONE CONSTRUCTION

HK151033 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 14 Jun 84

[Text] The Zhuhai City CPC Committee has recently adopted 10 measures to further implement the policy of opening to the outside world and to step up the construction of the special economic zone, with a view toward implementing the spirit of the forum held by the central authorities and attended by the representatives of some coastal cities. The measures are as follows:

1. Extend the limits of authority for examination and approval; simplify examination and approval of formalities; establish organs at the city, county, and district levels to take overall charge of examination and approval matters; and confine the time for examination and approval to, in general, no longer than 15 days.
2. Adopt a policy of active support toward the endeavors to import advanced technology and equipment and to transform old enterprises. Exemption from customs duties and import in duty and commerce tax will be granted to the importation of the advanced key equipment that our country cannot produce or the supply of which cannot be domestically guaranteed, for the time being, until 1990.
3. Soften the terms for cooperation. Reduction or exemption from some taxes is to be given to some enterprises using Chinese and foreign capital and enterprises using wholly foreign capital, and preferential treatment is also to be granted to enterprises operated by other provinces and cities.
4. Reduce expenses on land use, costs of administration, and service charge for the projects that use a sizable amount of land and have slow returns from investments.
5. Smash the past practice of a certain department monopolizing the business and allow people to carry out transtrade business activities while doing a good job in their main business.
6. On the matter of foreign exchange control, tighten control as well as relax policies and adopt various measures to retrieve foreign exchange from among the masses.

7. Vigorously develop export trade by processing imported materials.
8. Allow a certain portion of products produced by enterprises operated by overseas businessmen who import advanced technology, techniques, and equipment to be sold in the domestic market.
9. Extend the limits of authority for financial control.
10. Give more preferential treatment than ordinary foreign businessmen to nationals residing abroad who make investments in the city.

CSO: 4006/601

SPECIAL ECONOMIC ZONES

BRIEFS

SHANTOU SPECIAL ZONE IMPORTS CAPITAL--Guangzhou, 15 Jun (ZHONGGUO XINWEN SHE)--Over the last 2 years and more the Shantou Special Economic Zone has imported Overseas Chinese and Hong Kong capital amounting to some 40 million yuan. Trade talks are being held concerning 100 projects. Of the 30-odd projects with officially signed agreements, 25 are projects using Overseas Chinese and Hong Kong capital. At present seven factories have been set up and eight more projects in aquatics breeding, agriculture, guest houses, business centers, and ports have been completed according to contract stipulations. Moreover, four enterprise transformation projects in the old city proper have also been completed. [Text] [HK160435 Beijing ZHONGGUO XINWEN SHE in Chinese 0954 GMT 15 Jun 84]

JAPANESE COLOR TELEVISION VENTURE--The SHENZHEN TEBEIBAO [SHENZHEN SPECIAL NEWS] reports that the production of 20-inch color television sets has been started in the Shenzhen Special Economic Zone. The (Ka Li) Electronic Company, which is a joint venture set up in cooperation with a trading company in Hong Kong, imported a color television production assembly line from Japan's Sony Company last month, and succeeded in trial-producing the first 20-inch color television set early this month. The assembly line imported from Japan is capable of producing 150,000 color television sets annually. The company, however, plans to produce 30,000, 14 and 20-inch color television sets each this year, and with the approval from the departments concerned, part of these television sets will be put on sale in the Shenzhen Special Economic Zone and in other localities in China. [Summary] [OW190505 Beijing in Japanese to Japan 2130 GMT 17 Jun 84 OW] Shenzhen, June 23 (XINHUA)--A color television production line imported from Japan officially went into production this week in the Shenzhen Special Economic Zone near Hong Kong. The Huali Electronics Ltd. in Shenzhen imported the production line from Sony, Japan, in the form of technical cooperation free of patent charge. Huali and Sony have had more than ten years of cooperation, a Huali spokesman said. [Excerpts] [OW230722 Beijing XINHUA in English 0650 GMT 23 Jun 84]

CSO: 4020/137

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

JOURNAL ON LONG TERM TREND OF SOVIET ECONOMY

HK271440 Beijing SHIJIE JINGJI in Chinese No 4, 10 Apr 84 pp 29-33, 20

[Article by Luo Zhaohong [5012 5128 7703] of the World Economic and Political Research Institute of the Chinese Academy Social Sciences: "On the Long-Term Developmental Trend of the Soviet Economy"]

[Text] The Soviet Union is one of the two super powers and it has an enormous influence on political, military, and economic developments in today's world. An analysis of the Soviet Union's long-term economic developmental trends, and evaluations of the developmental direction, speed of growth, and present problems in the Soviet economy in the 1980's right up until the end of the century, is extremely significant in analyzing future world development trends. By examining the traits of Soviet economic development during the 1970's and some of the new directions in economic policies over the last two years or so, this article attempts to make some crude and basic evaluations of future developmental trends in the Soviet economy.

Ten Years of Slow Growth

Looking back over the development history of the Soviet economy since the war, we can see that the 1970's were a turning point in economic development in the Soviet Union, with three major traits. The rate of economic growth dropped, the economic structure was reorganized, and the economic management system was further reformed.

First, the entry of the economy into a period of slow growth. On the one hand, as far as the Soviet Union itself was concerned, the shift to slow growth from fast post-war growth meant that the 1970's became the slowest decade of economic growth in Soviet history (see Table 1). On the other hand, the Soviet Union's superiority over the developed capitalist countries in terms of growth was being eroded (see Table 2). Before this the Soviet Union had always maintained a much faster rate of growth than other developed countries, with the exception of Japan. After the start of the 1970's, the rate of growth clearly dropped off and approached the normal levels of the capitalist countries during non-crisis years. This meant a stagnation in the balance of economic power between the Soviet Union and the United States. For example, according to the Soviet Union's own statistics, the Soviet Union's national income, industrial production value, and agricultural production value in 1970 were 65 percent, 75 percent, and 85 percent of those in the United States and in 1975 they were 67 percent, 80 percent, and 85 percent respectively. After this they stabilized at these levels.

Table 1. Average Annual Growth in Major Soviet Economic Indexes (Percent)

	<u>1946- 1950</u>	<u>1951- 1955</u>	<u>1956- 1960</u>	<u>1961- 1965</u>	<u>1966- 1970</u>	<u>1971- 1975</u>	<u>1976- 1980</u>	<u>1981- 1985</u> (planned)
Gross social Production Value	14.2	10.8	9.1	8.5	7.4	6.4	4.2	--
National Income	14.6	11.3	9.0	6.5	7.7	5.7	3.8	3.4
Production Value	13.5	13.1	10.4	8.6	8.4	7.4	4.4	4.7

Table 2. A Comparison of Rate of Growth in the National Income and Industrial Production Value of the Soviet Union and Some Developed Countries Between 1971 and 1980. (Average Annual Growth Rate in Percent)

	<u>National Income</u>	<u>Industrial Production Value</u>
Soviet Union	4.9	5.9
United States	3.1	3.2
West Germany	2.8	2.3
France	3.6	2.9
Britain	1.5	1.0
Japan	5.4	4.5

Source: "Statistical Yearbook of the Soviet National Economy" of relevant years.

Second, readjustments to the economic structure and a stressing of methods of intensive economic development. The Soviet authorities were very concerned about the drop in economic growth and they were unable to ignore the effect on the Soviet economy wrought by the fierce demands by the people of Czechoslovakia and Poland during the latter years of the 1960's for reforms to the economic system and improvements in standards of living. One of the policies adopted in response to this was a reorganization of the economic structure and improvements in levels of consumption.

In readjusting the economic structure, the Soviet Government mainly tackled three things. First, in its handling of the proportional relations between accumulation and consumption, it increased the proportion of consumption. For example, consumption funds in the distribution of the national income increased from 70.5 percent in 1970 to 76.2 percent in 1980. This illustrates that the Soviet authorities could no longer ignore, as they had before, the people's demands for improved standards of consumption, and simply make consumption a surplus product of accumulation. Second, the rate of growth of agriculture, light

industry, and heavy industry gradually converged, thus slightly improving the irrationality of the inter-departmental structure. The proportions in the rate of growth of Soviet agriculture, light industry, and heavy industry shrank from 1 to 1.33 to 1.42 between 1971 and 1975 to 1 to 1.2 to 1.17 between 1976 and 1980. The Soviet Union once again stressed the need to produce more consumer durables for its citizens and heavy industrial departments in particular were required to produce more consumer products. Finally, speeded up development of those industrial departments which were decisive in scientific and technological development. For example, when one compares 1980 to 1970 one sees that Soviet production of the means of production increased 83 percent, with the machine manufacturing industry increasing by more than 160 percent (of which computer technology tools increased 830 percent) and the chemical industry increased 120 percent.

At the same time, at the 24th session of the Soviet Communist Party in 1971, it was proposed that extensive methods of development be replaced by intensive methods of development and in 1976 intensive developmental methods were fixed as the developmental strategy for the Soviet economy and it was determined that this strategic change should be completed by 1990. Great stress was laid on quality and results and it was stipulated that between 85 percent and 90 percent of increase in national income and industrial production value should be achieved by improving labor productivity. Thus scientific research and educational expenditure in the Soviet Union quickly increased and it grew from 46.4 billion rubles during the latter half of the 1960's to 97 billion rubles during the latter half of the 1970's, an increase of 110 percent which exceeded the growth in the national budget expenditures.

Third, further reforms to the economic management system. In 1979 the Soviet Union passed new reform resolutions so as to perfect the economic mechanism. The overall aims of these reforms were to improve quality and results by perfecting planning work. The major measures adopted were the establishment of a planning system which integrated the long-term, medium-term, and the short-term and centered on the 5-year plan; the establishment of a new target system centered on quotas and net production value; pilot schemes involving financial self-management with each department as the basic unit of management; the implementation of a system of once only winding up of accounts on project completion and commencement of operation in capital construction. No doubt these measures have played a role in improving the scientific nature and stability of planning work but planning readjustments themselves are a weak point for the Soviet Union and these reforms did not include appropriate measures in these problem areas, namely allowing expression of the auxiliary role of market adjustments. Nor was there any actual progress made in the expansion of enterprise powers and strengthening of democratic management. We are forced to say that herein lie the failures of the 1979 reforms. Facts from the last few years prove that the "new resolution" has not actually been implemented. According to Soviet press sources, planning is still centered on annual planning and the number of enterprises implementing the system of quotas and net production value is not yet half the total number of enterprises. Thus we can say that the results of the 1979 "new resolution" are not great.

Andropov's Stance on Economic Policies

After Andropov came to power, policy toward the United States was hardened. But on the domestic front he carried out realistic economic policies and on the question of economic reform he seemed to have more initiative than Brezhnev. This was mainly manifested in the following few areas.

First, some new theoretical concepts were put forward to lay a path for further reforms in the future. In Issue No 3, 1983, of COMMUNIST PARTY MEMBER Andropov's long article was published, and his speech in June 1983 to the Central Committee of the CPSU, both clarified the following few things:

First, the present economic system and its management in the Soviet Union is still far behind the requirements of the developing productive forces. In the past, major Soviet policy makers and scholars agreed that the major factors hindering advances in science and technology, the process of intensification, and economic results, were a series of poor agricultural harvests and the eastward movement of the development bases for natural resources. However, Andropov bluntly admitted that "the work we are doing to perfect and reform the economic mechanism, and styles and methods of management falls far behind the requirements made by the standards to which social and spiritual development and Soviet society's material technology have already reached." In other words he admitted that the imperfections in some important links in the present-day Soviet economy, which reflected the state of production relations, were the major factors hindering the development of the productive forces.

Second, he replaced Brezhnev's "concept of ripeness" with the "concept of the starting point." Andropov believed that present-day Soviet Union was at the starting point of the long historical stage of "advanced socialism." Furthermore, he believed that this society was still not "totally perfect and beautiful." Hence, "a planned and comprehensive perfection of advanced socialism" was the strategic target for the next few years or even decades. He clearly pointed out that the existing CPSU program was outdated and he criticized that part of the party program which stated that "this generation of Soviet citizens will live under a communist system," saying that words such as these were "divorced from reality" and "exceeded time development." He proposed that reforms to the party program be placed on the agenda of important items of work.

Andropov thus put forward the "concept of the starting point" and refuted Brezhnev's concept. At the 50th anniversary meeting of the October Revolution in 1967, Brezhnev announced for the first time that the Soviet Union had become an "advanced socialist society," and furthermore linked this to the "transition to communism." The "concept of the starting point" actually criticized this "transition to communism" as being an "easily made" mistaken view. On the other hand the "concept of the starting point" was able to accommodate far more reforms. Since present Soviet society is still not ripe, the adoption of various measures and steps and even various major reforms were not only permissible but necessary. Before this, Khurshchev's call to catch up with the United States by 1980 and Brezhnev's "ripe socialism" both inevitably contained a degree of exaggeration. Thus Andropov's "concept of the starting point," as a guiding principle and his idea to adopt realistic measures to improve and perfect present-day production relations might prove to have far more positive and substantial results.

Second, he adopted new methods for improving the Soviet economy. Shortly after Andropov took over in the Soviet Union, he demanded that there be a consolidation of discipline and improvements in work quality. He not only required changes in labor discipline but also discipline in planning, the supply of goods, and so on. This reorganization had a momentous effect and authorities maintained a very firm attitude. Workers who did not respect discipline and neglected their duty were dealt with fairly severely, in such ways as deducting wages, reducing holidays, and being forced to work. In addition there were also firm moves to get rid of department heads unworthy of the title and indeed some cadres at deputy ministerial level who had committed very serious crimes were sentenced to death.

Another of the measures was the large-scale popularization of the collective contract system for production teams. The form of this collective contract system was outlined way back in 1938 in the decisions of the 18th National Congress of the CPSU and was first tested in 1940. These tests were halted in 1950 as a result of the criticism of Stalin. In 1958 pilot schemes were once again implemented but it was only very recently that they were popularized in agriculture and industry. In March of last year at the Soviet agricultural secretarial meeting, the general secretary of the CPSU Gorbachov said "use of the collective contract system should now be one of the major directions of realistic activities in all sectors of agriculture, agricultural research bodies, and trade union bodies." More recently an agricultural household contract system has begun to be implemented in some regions. There was also new development in the production team contract method in various sectors of industry.

It is worth pointing out that recently there have even been some changes in the hardest and firmest of Soviet economic theories, the theory of the system of ownership. The authorities stress that the changes to the system of ownership do not represent a singular action, but that this is a long-term, multi-faceted process which should not be oversimplified. Recently, while economic circles have been discussing the question of the system of ownership, they have ceased to stress the extent of socialization and instead stress the need to carry out a realistic analysis of the system of ownership, implying forms of management. In the past the Soviet handling of the system of ownership constantly strove for bigger and better, believing the more public, the better. Now, however, it is believed that changes in the style of management, such as permitting state-run enterprises greater management autonomy, will not influence the enterprise's essential nature as being "owned by the whole people." In addition the size of management scale must, they now believe correspond with the developmental level of the productive forces. Thus the Soviet press has launched discussion of the question of the appropriate scale of enterprises and farms and the best delineation between centralized authority and decentralized authority. These signs all seem to indicate that there may be some new changes in the form of the system of ownership, or at the very least in the actual form of the system of ownership.

Third, for the first time it was stated that the Soviet Union's economic reforms should learn from the experiences of reforms in Eastern Europe and in particular it was pointed out the Soviet Union should study and learn from the experiences

of the German Democratic Republic in industrial management, and from agricultural and industrial work in Hungary and then establish a special committee directly under the State Planning Committee, to handle this work. Andropov said "today, the concept of socialism must take into consideration the richest of the real experiences of the Soviet people and the people of its neighboring countries, before it can reveal itself," "the various and not totally identical experiences of our neighboring countries have provided us with a rich source of material for theoretical research." The statement by the highest level leader of the Soviet Union that they should learn from their neighboring Eastern European countries is the first ever, and illustrates that the Soviet leaders have now come to recognize that the old system simply has to be changed.

Fourth, he further expanded the autonomy of enterprises. In July of last year, the Central Committee of the CPSU and the Soviet Council of Ministers passed a resolution requiring the adoption of remedial measures to expand the powers of integrated production companies in the industrial sector and the powers of enterprises, and to implement pilot schemes as from 1 January 1984 throughout the entire Soviet Heavy-Duty and Transportation Machinery Manufacturing Department, the Electronic Machinery Department, the Ukrainian Food Industry Department, the White Russian Light Industrial Department, and the Lithuanian industrial sector. The expanded enterprise rights and powers basically involved two things: One was expanded planning powers for the enterprises which outlined a greater role for enterprises in the drawing up of economic and social development plans at every stage of planning work and an increased sense of responsibility on the part of enterprises to meet the demand for their products and achieve their planning targets with little consumption, while at the same time reducing indexes and figures set for the enterprises and increasing the role of economic quotas. Thus these reforms differed from the reform resolutions of 1965 and 1979. While in the past the number of indexes and figures issued to the enterprises had also been reduced, the enterprises' powers in drawing up plans were still virtually zero. Two, some test enterprises were to be given powers to make independent use of production development funds using some depreciation and retention funds for technological reforms and independently making use of some unified scientific and technological development funds. In addition there have also been increased possibilities for enterprises to make use of loans in carrying out technological transformation using fixed amount of loans. While the reforms of 1965 allowed enterprises to make use of retained profits for setting up production development funds, bonus funds, and cultural and housing construction funds, the use of these funds, especially the production development funds, remained very restrictive and it was very hard for the enterprises to make independent use of them. These decisions also state that the quantity of the wage funds, social development and technological reform funds in these pilot scheme enterprises will be directly determined by the final result of production, the extent to which goods supply contracts are completed, and improvements in production results. The purpose in emphasizing the final outcome of production, is an attempt to change the former method by which enterprises were assessed on the basis of their completion of certain targets or indexes.

The results of the Soviet Union's national economic plans for 1983 were not bad and industrial and agricultural production last year were the best since 1978. Although agricultural production value did not reach the planned targets, it seems as if grain production will reach more than 200 million tons, making it the first bountiful year after four successive years of bad harvests. Originally it was planned that industrial production value should increase 3.2 percent and in actual fact it increased 4 percent. National income came near to achieving its planned targets and there were clear improvements in the situation regarding transportation and shipping.

Although Andropov died in February of this year and was succeeded by Chernenko, and while it is generally thought that Chernenko tends to be rather conservative as far as the question of reform is concerned, it does however look as if some of the new measures and policies implemented during Andropov's term will continue to be carried out. The reasons for this are first, these new measures are party resolutions and government decrees and thus cannot be easily changed. Second, the reforms to the Soviet economic system are determined by the requirements of both domestic and international trends and the demand both within and outside the party for these reforms is quite strong. Third, Chernenko said at an Extraordinary Session of the Central Committee of the CPSU, "the best way in which we may cherish his memory and ensure a continuity of policies is to continue the work begun under the leadership of Andropov and bring about progress in this work on the basis of collective hard work."

Evaluation of Long-Term Developmental Trends

I believe that the trends for Soviet economic development until the end of this century are that on the basis of the slow growth during the 1970's there will be a slight increase during the 1980's while the growth rate during the 1990's and beyond will be higher than during the 1980's. However, in general, economic growth will still remain slow and there is little chance of it regaining the rates it experiences before the 1970's.

According to issue 4, 1983 of the Soviet magazine ECONOMIC QUESTIONS the Soviet Union is at the moment involved in drawing up 15 year long-term plans for the period from 1986 to 2000, but no concrete figures have been provided. Apart from national income and capital construction investment indexes which proved to be lower than the actual growth rate during the "10th 5-Year Plan," indexes drawn up for the 11th 5-Year Plan from 1981 to 1985, in areas such as agricultural and industrial production value and the production of the means of subsistence, all show growth rates higher than the actual figures for the preceding 5 years. Assuming that the targets for the 11th 5-Year Plan are achieved, it is estimated that the indexes for the 12th 5-Year Plan cannot be very much higher.

The main reason why the rate of growth during the 1980's cannot be very high is that the negative factors which exist in Soviet economic development cannot be solved within the short-term. These negative factors are: a worsening of conditions for reproduction, heavy burdens in military expenditure, and a hampering of the development of the productive forces by the economic management system. In view of the nature of the Soviet-American world hegemonistic struggle, there is no way in which the Soviet Union can reduce its military expenditure.

This worsening of the conditions for reproduction is a reference to the shortage of labor, especially the shortage of skilled and trained workers and specialists, as well as the cost and difficulties involved in the exploitation of natural resources. The new increases in the labor force during the 1980's are mainly made up of those born in the 1960's and the early 1970's. The birth rate during this period dropped considerably from 24.9 per thousand in 1960 to 17.40 per thousand in 1970. Calculating on the basis of this, there were around 5.43 million children born in 1960 and only 4.23 million born in 1970. This means that the population entering working age around 1990 will be more than 1.1 million less than in 1980. At the same time there has also been a clear drop in the growth of trained workers. For example, the growth rate in graduates from vocational and scientific and technological colleges dropped from 5 percent during the first half of the 1970's to 3 percent during the latter half of the decade, while in the first half of the 1980's the rate will drop a little more to 2.4 percent. The growth rate in the number of specialists and experts within the national economy who have received a secondary school level specialist education dropped from 6.8 percent during the last 5 years of the 1960's to 4.4 percent during the last 5 years of the 1970's. The growth rate in the number of specialists and experts who have received tertiary level specialist education dropped correspondingly from 7.1 percent to 5 percent. When we take into consideration the fact that the urban birth rate is far lower than the rural birth rate, it becomes clear that in order to maintain the supply of industrial labor, the Soviet Government may have to sacrifice agriculture and make massive recruitments from the rural areas.

Natural resources in the western Soviet Union, where conditions for their exploitation are good have now been or very shortly will be completely exhausted and this means that the government is being forced to develop and exploit the natural resources in the eastern and northern sections of the country where conditions are very poor. This will mean increased exploitation costs and a slowing down in production growth. According to the most recent Soviet calculations, the investments required for every 1 ton of increased production of crude oil between 1981 and 1985 will be 8 times that of the money required between 1976 and 1980. The growth rate of crude oil production in the Soviet Union was an annual average 7 percent between 1966 and 1975 and from 1976 to 1980 it dropped to 4.2 percent. Plans for 1981 to 1985 only show a 1 percent growth rate.

It should be pointed out that while the labor shortage and the worsening of conditions relating to natural resources will obviously affect the rate of economic growth, these are not the major decisive factors in the slow growth of the Soviet economy. The reason for this is first, the drop in the birth rate is a general phenomenon throughout all economically developed countries and the present Soviet birth rate is in fact still higher than that of developed Western countries. Second, the worsening of conditions relating to natural resources is only relative, since the Soviet Union is one of the world's largest countries and richest in natural resources. As science and technology develop, the present unfavorable development and exploitation conditions will gradually be overcome. One of the major factors restricting development of the Soviet economy is the backwardness of science and technology and the restrictions on the development of the productive forces as a result of the economic management system. If there is some improvement in these two factors then economic development may speed up.

Because science and technology are backward and labor productivity is low, the Soviet Union has still, to the present day, been developing the economy mainly on the basis of extensive methods and because of this the labor shortage has had a major effect on economic production. The Soviet authorities are already very aware of this. At the 24th Congress of the CPSU in 1971, it was proposed that there be a gradual transition from extensive methods to intensive methods and it was decided that 20 years (until 1990) were required to complete this change. Beginning in the 1980's the Soviet Union ordered that all new investment should mainly be used for technological reforms and there was a clear drop in new construction projects. Even if the plans for the transition to intensive methods are not completed on time, there will definitely be some results by the late 1990's and this will produce improvements in Soviet production efficiency. Every today one can see the very first signs of this. For example, for every 1 percent increase in investments, percentage production increases in national income have increased from 0.94 percent between 1971 and 1975 to 1.04 percent between 1976 and 1980. Although the fixed fund production value rate has continued to fall, the extent of its fall has lessened and in 1975 it had dropped 13.3 percent over 1970 while in 1979 it had dropped 11.2 percent over 1975. In addition to this, policies which stress increased production of the means of subsistence will also play a part in such improvements. Facts prove that pure monetary stimulation without sufficient consumer items to satisfy demand means that such stimulation cannot last. If there are more and more consumer products to satisfy the demands of the people, this will have a stimulative effect on the development of production. This is one of the bases on which we estimate that during the last 10 years of the century, there could be a speeding up in the development of the Soviet economy.

Naturally the reforms to the economic management system have the greatest potential for speeding up Soviet economic growth since the present economic management system is itself an obstacle hindering further economic development. When Andropov was alive the Soviet Union was already considering the implementation of new economic reforms. These reforms included the establishment of new economic reforms. These reforms included the establishment of a department of economics within the Central Committee of the CPSU; a broad discussion of the problems related to the perfection of the economic mechanism; the implementation of pilot schemes involving expanded enterprise autonomy; great efforts to reorganize discipline and sort out leadership and work styles; selective introduction of successful reform experiences from Eastern European countries; great efforts to promote the effective production team contract system and collective contract system, and so on. Naturally, under the present Soviet system, all reforms are restricted in various ways and furthermore, reforms are very slow moving. If Chernenko continues these preparations and pilot schemes and achieves some successes, then perhaps some new reform decisions will be made during the later 1980's and the early 1990's. It is very probably that the direction of these reforms will be to allow enterprises greater autonomy in areas of supply, production, and marketing; while preserving the two basic forms of ownership, namely "all the people" and the "collective," to allow greater flexibility in the realistic form of the system of ownership and the forms of management. In addition to the perfection of production relations, the principle of intensive development may see some success during the 1990's and because of the implementation of collective and household contract systems in agriculture, there may

be improvements in the agricultural productive forces. If such a situation does occur, Soviet economic development will be faster than during the 1980's and thus for example, national income may increase by an annual 3.5 percent and this in turn would further reduce the disparity in the economic strength of the Soviet Union and the United States and thus have a new effect on the pattern of the hegemonistic struggle between the United States and the Soviet Union and the development of world trends.

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

JINGJI RIBAO ON HUNGARY'S ENTERPRISE MANAGEMENT

HK221224 Beijing JINGJI RIBAO in Chinese 13 Jun 84 p 4

[Article by Chen Xueyan [7115 1331 3601]: "Seven Questions About Hungary's Enterprise Management After the Decisionmaking Power of Enterprises Is Expanded"]

[Text] Editor's note: An important component of the reform of the economic management system carried out in Hungary in 1968 was the expansion of the decisionmaking power of enterprises.

Since the expansion of the decisionmaking power of enterprises, the production enthusiasm of enterprises has risen and the national economy has developed. However, some enterprises have also taken advantage of the opportunity to abuse the financial, investment, supply and marketing, and human rights granted by the state and incurred undue losses to the society.

For this reason the Hungarian Government has adopted a series of measures aimed at strengthening management over the enterprises in order to prevent unhealthy tendencies. Here we introduce seven questions for your reference. [end editor's note]

1. What Is To Be Done If the Plan of an Enterprise Does Not Conform to the State Plan?

Although Hungary has abolished the practice of the state issuing production targets directly to enterprises, it does not abolish planning. The state still has 15-year (long-term), 5-year (medium-term), and annual (short-term) production plans, and the major targets for and proportions of economic development are laid down by the state. Therefore, planning is still basic to the central guidance. All production tasks, such as investment and national defense projects of strategic importance to the whole country, economic cooperation with foreign countries, and the necessary reserve, are still strictly laid down by the state.

After its formulation, the state plan is issued to various enterprises so that they can independently draw up their own plans according to the state plan and the economic management regulations laid down by the central authorities. When the plan of an enterprise does not conform to the state plan, the state consults with the enterprise from highest to lowest level and tried to unify them gradually through economic readjustment measures, such as credit and price. It does not forcibly change the plan of an enterprise by issuing administrative orders. However, the managers of state enterprises will generally take the views of the state organizations into serious consideration because they are appointed by the state and their bonuses are decided by the state.

2. What Is To Be Done If an Enterprise Willfully Expands Its Investment?

Since the reform of the economic management system, some enterprises have proceeded from their own units' interests and have invested heavily in the idea of independently deciding on enterprise investment. However, the scale of their investment has constantly grown, thus undermining the even development of the national economy.

Consequently, in good time the Hungarian Government adopted various measures for keeping enterprise investment under control. First, in 1974 the state promulgated the "Investment Law" and "Detailed Rules and Regulations for the Implementation of the Investment Law," in which stipulations for various matters such as the coordination, examination and approval, and implementation of the enterprise investment plan, have been explained in great detail. The "Investment Law" required all enterprises to insure the achievement of targets for the national economy, the sales of products, and investment profits. All investment having a strong bearing on state security and the economic lifeline is still decided by the state. Second, with respect to investment projects decided by enterprises, the state should generally levy 10 percent of the construction and installation value as a construction tax and the enterprises should pay to the state 2-17 forints per square meter annually as a land tax. The state also collects the investment tax, the rate of taxation being 25 percent of the investment. Third, the function of the bank in supervising investment by enterprises should be strengthened. All investment funds are derived from bank credit. The banks have imposed a condition for the credit. The enterprises should insure a certain rate of profit from their investment projects, for example, 9 percent for agriculture, 10 percent for commerce, and 15 percent for the processing industry. If the enterprises fail to reach the stipulated profit rates in their investment projects, the banks should refuse to grant the credit. Moreover, the enterprises should also possess funds equivalent to 30 percent of the investment amount. They should deposit the money in the bank before they have the right to borrow money. Annually, 15 percent of the credit for the enterprise investment projects should be repaid, within a period of 10 years at the latest. Overdue credit should be repaid to the bank with 10 percent punitive interest. With respect to the projects urgently needed by the state, the enterprises not only can have priority in getting credit, but can also enjoy low interest rates.

[HK221514] 3. What Is To Be Done If Enterprises Willfully Raise Prices?

The Hungarian economic system stipulates that enterprises have the right to fix the prices on a number of commodities, particularly the free prices of some commodities. Some people are worried that, in such a case, the enterprises will willfully raise prices and thus undermine the interests of the consumers.

As a matter of fact, free prices are not entirely free in Hungary. The state has a set of regulations on how enterprises should fix free prices. If a factory raises the price of its product because of a price hike in imported raw materials, the scope of the price rise should not exceed that of the price hike abroad. It also stipulates that the price rise should not result in changing the profit rate of an enterprise. Moreover, a factory should report to the Bureau of Commodity Prices 6 months before the prices of the products that have free prices can be raised. If the Bureau of Commodity Prices does not have any objections, the prices can be raised automatically 6 months later. If it disagrees, the application should be rejected and the enterprise will have no way to raise the prices. The retail prices are also subject to strict regulations and the system of supervision. For example, by itself an enterprise can fix the prices of garments that have free prices. However, the government stipulates that the difference between the wholesale and retail prices of various garments should be restricted to between 8-20 percent. In fixing garment prices, a shop should not exceed this limit. Otherwise it will be subject to punishment. In accordance with the seriousness of the case, the punishment is divided into five degrees. The first is a warning; the second a fine of 1,000 forints; the third a fine of 5,000 forints; the fourth a fine of 3,000 forints per square meter of business floor space of the shop; and the fifth a cancellation of the business license.

4. What Is To Be Done If an Enterprise Issues Wages and Bonuses Indiscriminately?

In the initial period of the economic reform, because there were not any regulations or specific measures, enterprises usually reserved 50 percent of the retained profit for bonus funds. Consequently the workers and staff members received many bonuses.

In light of this situation, the Hungarian Government kept the bonuses under control by collecting a progressive tax. The Hungarian Government stipulated that an enterprise should pay a progressive tax of 200 percent or more if its bonus fund exceeds 3 percent of the total wage amount. The more bonus shared, the higher the tax rate, with a maximum as high as 800 percent. An enterprise with good administration and management is allowed to issue more bonuses to its workers and staff members. At the same time, the accumulation for the state and the proportion of distribution should not be affected. The more the workers and staff members get, the more the accumulation of the state, thus forming a benign cycle. Moreover, the state also constantly reduces the retention of profit by enterprises. For example, the profit tax delivered to the state was fixed at 36 percent in 1979, raised to 40 percent in 1980, and raised again to 45 percent in 1982. At present the distribution of enterprise profit in Hungary is as follows: 1) An urban and rural development of 15

percent; 2) a profit tax to the state of 45 percent; 3) reserve fund deductions for the enterprise; 4) repayment of state credit; and 5) after deducting the above items, the portion reserved for the development and bonus funds of the enterprise accounts for about 35 percent of the profit. Of this, the development fund accounts for about 27 percent and the bonus fund for about 7-8 percent. In this way the phenomenon of an enterprise indiscriminately issuing bonuses cannot easily emerge.

[HK221515] 5. What Is To Be Done If an Enterprise Suffers Losses?

At present, of the 1,380 industrial enterprises in Hungary, the enterprises operated at a loss account for about 10 percent. Hungary deals with the enterprises operated at a loss in the following three ways: 1) If the products manufactured by the enterprises are needed in the domestic and international markets and if there are prospects for turning deficit into profit, the government helps the enterprises to analyze the causes for the losses. If they are caused by ineffective leadership, the leaders will be dismissed. If the leaders of the enterprises are willing to change the outlook of the enterprises, they may sign contracts with the departments in charge of the work. The contracts provide the time limit, methods, and steps for turning deficit into profit and the punishments meted out and rewards given to the leaders. The contracts also stipulate that the departments in charge of the work, along with the financial departments, will adopt certain measures to help the enterprises to improve their management conditions, such as increasing bank credit, extending the time limit for its repayment, and readjusting the prices of the products manufactured by the enterprises. 2) With respect to the enterprises that have incurred losses as a result of an outmoded product combination, the government will auction some of the enterprise's property in order to make up for the losses. 3) With respect to the enterprises that should be restructured and readjusted in various ways from leaders to production, the government will declare the enterprise's bankruptcy, clear accounts with them, and sell them after inviting bids. With respect to enterprises that have been declared bankrupt, the balance of debts resulting from the debts being greater than the assets will be undertaken by the state, but the balance resulting from the assets being greater than the debts will be retained by the state. With respect to the workers and staff members of these enterprises, the state is responsible for finding jobs for them. The workers and staff members are allowed to choose their own jobs and then sign labor contracts with the relevant new enterprises. Before finding new jobs the state insures a certain income for the workers.

It is stipulated in Hungary that the leaders of an enterprise operated at a loss should assume its economic responsibilities. They are denied of bonuses. In the second year, the principal leaders can receive only 75 percent, and middle-ranking leaders only 80 percent, of their basic salaries. If the enterprise still fails to turn deficit into profit in 2 years, the principal leaders of the enterprise will be dismissed.

6. What Is To Be Done If the Leaders of an Enterprise Act Arbitrarily?

Hungarian enterprises implement a system of personal responsibility by a factory director (manager). Factory directors (managers) are appointed or

dismissed by the state. A factory director assumes legal, material, and moral responsibility for the economic activities of the entire factory. The party organization of an enterprise cannot replace the direct leadership of the economic organization. Consequently, the leaders of some enterprises are liable to act arbitrarily. In order to prevent this unhealthy tendency, the Hungarian Government attaches great importance to democracy in enterprises, stressing that the democratic system of enterprises is a means to insure the participation of workers in the management of enterprises.

Under ordinary circumstances, the leaders of an enterprise are members of the executive committee of the enterprise party committee. A major economic policy decision by the enterprise can be put into practice after it has been discussed with and has won the approval of the party and trade union organizations. With respect to major affairs, the party organization and trade union have the right to veto them. The rationality or irrationality of their vetoes is to be examined and determined by party and trade union organizations at a higher level. An enterprise should have the permission of the trade union before it can dismiss a worker or a staff member.

[HK221516] A trade union is a "representative organ of the working masses" in an enterprise. It has the following functions: It can sign an "enterprise collective contract" with the factory director on behalf of the workers and staff members of the whole factory. As a "constitution" for re-adjusting the relationship between the leaders on the one hand and the workers and staff members of the enterprise on the other, the contract includes various provisions such as working conditions, wages, labor protection, and the system of material reward and spiritual encouragement. The trade union has a say in such matters as the scale of the wage increase for the workers and staff members of the enterprise, the principle of distribution, and the distribution of bonus funds at the end of the year. It has the final say on such matters as the distribution of the social welfare, recreational, and sport activities fund, extra allowances for those in material difficulty, and the recuperation fund of the enterprise. It has the right to express its views on the mid-term and annual plans of the enterprise and on the annual activities of the economic leaders of the enterprise and, if necessary, it may put forward a proposal to the government departments concerned for the removal of the enterprise leaders. It has veto power over major economic policy decisions. After a trade union warns that the labor environment is detrimental to the workers' health or threatens the lives and security of the workers, it has the right to order the workers to stop production if the enterprise authorities fail to adopt appropriate measures.

In order to strengthen supervision over the enterprise, the general meetings of workers and staff members and the workers' congresses are held regularly to discuss the major events of the enterprise. Moreover, the enterprise holds a technical meeting and a production meeting once every 3 months and a meeting of production team leaders once a month to discuss production and technical problems in the enterprise. There are also the youth congresses, the meetings of reformers, the congresses of women, and so on. These democratic meetings play a positive role in supervising enterprise leaders in exercising their power.

It should also be pointed out that while giving prominence to economic measures, Hungary also employs a system of administrative means, economic supervision, and organizational measures. The application of economic measures is based on various laws such as the taxation law, price law, and banking law. In fact, many economic measures are subject to the regulation, promulgation, organizational implementation, and inspection of the administrative organs. Those who act in violation of the laws will be punished accordingly. The administrative, economic, and legal means are inseparable from one another. They are the means by which the state comprehensively readjusts the microeconomic activities of an enterprise from the angle of macroeconomy.

7. What Is To Be Done If There Is Imbalance Between Supply and Demand?

Since Hungary implemented the trade system in the field of product circulation, an enterprise can freely purchase products or sell their own products in the market and the residents can also freely purchase the consumer goods they need from the market. Under these circumstances an enterprise frequently manufactures more products that are profitable and neglects the production of commodities that have low profit rates but that are needed by the consumers, thus resulting in an imbalance between supply and demand.

[HK221517] In an effort to solve this problem, Hungary integrates a regulation by a market mechanism with regulation by a planning mechanism in a flexible way. First, the government has adopted some administrative measures: 1) With respect to products that have a direct bearing on the livelihood of the residents, the government places them under centralized distribution; meat is one of these products. In a centralized manner the government fixes the amount of meat consumption of the residents in the country and the export quantity, and issues the target figure to the big enterprises that produce and supply the meat. 2) With respect to products with an imbalance between supply and demand, the state fixes quotas for their circulation. There are generally three stipulations on quotas: (a) Fixing the quantities of raw materials needed for production by the production enterprises. In 1983, 17 kinds of products came under fixed quotas, including iron sand, pig iron, rail, steel tubes, and chemical fertilizer; (b) fixing the quotas of products for the consumption of the residents in the domestic trade, such as coal and cement; and (c) fixing the import and export quotas for 23 products, including most metallurgical products, petroleum, and natural gas. 3) With respect to the purchase and sale of staple products, the state stipulates the establishment of a direct supply relationship between the big enterprises. As for the variety, quantities, and prices of the goods to be supplied the two parties concerned can solve them through consultation and in accordance with state policies. 4) With respect to national defense products and products for export to the Comicon countries, the state compels certain production enterprises or supplying units to sign commodity supply contracts with the purchasing units according to the stipulated quantities and to insure the supply of the products in good time.

Beside adopting administrative means, the state chiefly employs the following economic means to maintain the balance between supply and demand in the circulation of products:

The price policy--With respect to products that affect the national economy and the people's livelihood, or the supply of which falls short of demand, the state affects production and consumption through the methods of raising or lowering their official prices. With respect to those products in ample or even excessive supply, the state establishes a balance between supply and demand through floating market prices. When there is an adverse balance of foreign trade, the state expands exports and reduces imports by offering competitive prices in order to achieve a balance in foreign trade.

The taxation policy--The state expands or restricts investment, consumption, the production of and demand for certain products, and import and export quantities by establishing different tax categories and rates in order to insure a balance between supply and demand in the market.

The credit policy--The state expands or restricts the production of and demands for certain products by increasing or reducing the credit and by raising or lowering credit interest rates, thus exerting some influence over the balance between commodity supply and demand. Generally speaking, with respect to the production of commodities needed by the state and the residents, the state increases the credit amounts and reduces the interest rates. Conversely, the state reduces the credit amounts and raises the interest rates. In order to encourage the enterprises to increase their exports to capitalist countries, to reduce the consumption of energy and raw materials, and to utilize waste material and regenerated resources, the state adopts the method of returning the interests it has received from the enterprises. The proportion of the interests returned to the enterprises is somewhere between 25 and 48 percent. The interests returned will be composed from the allocation of the next fiscal year's state budget. Moreover, the state also allots some financial allowances for the production of commodities needed by society.

CSO: 4006/602

WEN WEI PO ON DUTY-FREE IMPORTS TO 14 PRC CITIES

HK200854 Hong Kong WEN WEI PO in Chinese 14 Jun 83 p 3

["Special Dispatch" by Lan Jing [5663 7231]: "Imported Materials for Open-door Cities To Be Exempt From Customs Duties and Industry and Commerce Tax"]

[Text] It has been learned that the General Administration of Customs formulated new regulations early this month. The regulations, which have already been put into effect, give preferential treatment to China's 14 cities which are being further opened to the outside world in the areas of customs duties and unified industry and commerce tax. The preferential conditions are:

First, improved advanced technology and equipment for the 14 open-door cities for technological transformation are all exempt from customs duties and industry and commerce tax.

Second, the imported machinery, key parts, stationery, and means of transport for Chinese-foreign cooperative enterprises, joint venture enterprises, and enterprises set up entirely with foreign funds in the 14 cities are all exempt from customs duties and unified industry and commerce tax.

Third, the imported materials, machinery, and equipment for the construction of basic facilities (such as water and power supplies, communications, roads, and other public facilities) in the economic and technological development zones organized by the 14 cities are all exempt from customs duties and unified industry and commerce tax before 1990.

The first two preferential treatments also apply to suburban areas of the cities, but exclude the counties in the suburban areas directly under the city authorities. The treatments are now effective. The third one only applies to the economic and technological development zones specified by the cities. It will be put into effect once the development plans for the zones are determined and approved.

As China faces the urgent and arduous task of transforming the technology of more than 300,000 old enterprises, its method of encouraging importation of advanced technology and equipment to these 14 coastal cities, whose industrial bases have reached a fairly high level, will bring about a tide of technological revolution, which is already underway.

HEILONGJIANG OPENING UP THROUGH HONG KONG MARKET

HK151103 Hong Kong TA KUNG PAO in Chinese 15 Jun 84 p 2

["Special dispatch" from correspondents Lu Ping [4151 1627] and Lao Minsheng [0525 2404 3932]: "Heilongjiang To Combine With Neighboring Provinces in Opening Up to the World Through Hong Kong"]

[Text] Harbin, 14 Jun--Heilongjiang Province Governor Chen Lei said today that the province would further open up to the world and make use of the Hong Kong international market as a channel to maintain ties with other parts of the world. The province would set up its offices in Hong Kong on the one hand and, on the other, make full use of its ties with three friendly areas, namely Alberta Province of Canada, the state of Wisconsin of the United States, and Niigata City of Japan, to speed up economic development.

Governor Chen Lei and Vice Governor Hou Jie met and feted this evening a delegation of the Hong Kong and Macao press circles headed by Chen Bin, deputy chief editor of TA KUNG PAO. Chen Lei said that Hong Kong had played an important role in the province's foreign trade, contributing one-third of the province's \$322.98 million direct import and export volume last year.

Expand Trade With the Soviet Union, Support Dalian and Qinhuandao in Opening Their Doors

Chen Lei said: Heilongjiang maintained an average annual growth of 6 percent in its gross industrial and agricultural output value and an average annual growth of 5.4 percent in the per capita national income during the period from 1979 to 1983. In 1983 the workers' and staff's average salary increased by 28.6 percent while the peasants' per capita income increased by 135.7 percent respectively over 1978. The province also witnessed quite a rapid development in farming, forestry, animal husbandry, sideline production and fishery. The total output of grain exceeded 30 billion jin and the gross agricultural output value reached an unprecedentedly high level in the history of the province.

He said: By 2000, Heilongjiang Province's gross industrial and agricultural output value will amount to 150 billion yuan, an increase of 344 percent over 1980, with an average annual growth of 7.7 percent. Toward this end, the annual growth rate of the province's gross industrial and agricultural output value is set at 6.9 percent for the 1980's and at 8.6 percent for the 1990's.

Development in various fields will also keep in pace with industrial and agricultural production and the people's material and cultural life will be improved year after year. The former great northern wilderness will then become a land of plenty.

Finally, he said: In order to further promote trade with the border areas of the Soviet Union, the province will open three port cities, namely Heihe, Suifenhe, and Tongjiang, and will continue to maintain communications with Siberia through Chongjin port of Korea. At the same time, the province will expand export trade, vigorously bid for foreign construction projects, promote the export of agricultural and animal husbandry products, and make every effort to start the project of the Harbin international airport as soon as possible. On the other hand, Heilongjiang will also support the construction and make use of the facilities of the coastal cities which are open to the outside world, such as the ports of Dalian and Qinhuandao, which are located nearby.

The province also plans to join Jilin, Liaoning, and eastern Nei Monggol in a joint scheme of opening up to the world. Liaoning Province possesses good ports while Jilin, Heilongjiang, and eastern Nei Monggol are rich in natural resources and produce a wide range of products. Therefore, the four areas' joining in the scheme will mean better results in their effort to open up to the world.

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