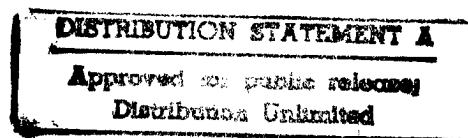


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8 JANUARY 1990



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GENERAL

Overseas Chinese View PRC After Tiananmen

90ON0060A Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese
No 36, 4 Sep 89 pp 34-36

[Article by Zhao Jian (6392 0256): "After the Beijing Events, Visiting Overseas Chinese Give Their Views"]

[Text] This summer's Beijing disturbances are still a topic of considerable discussion throughout the world.

Today's well-developed communications systems instantaneously spread the news of the Beijing events throughout the world and spread ripples of commentary among Overseas Chinese communities both here and abroad. Some of these spoke or wrote in order to foster understanding; some raised their arms and cried "protest" in the streets; while some of our countrymen living abroad formed groups that went to Beijing for on-site investigations. According to the State Council's Overseas Chinese Affairs Office, from the beginning of June to the middle of August, they received more than 180 visitors from such nations and regions as the United States, France, the United Kingdom, the Netherlands, Sweden, the German Federal Republic, the Philippines, Brazil, Australia, Thailand, and Hong Kong. Especially noteworthy is that the number of visitors from the United States was clearly larger than for the same time period last year. And these investigators keep pouring in.

As for China, from the national chairman and the premier of the State Council, to the director of the Overseas Chinese Affairs Office and the mayor of Beijing, they have come one after another to meet with the visitors. They come to acquaint the Overseas Chinese with the facts of the situation, to remove their doubts and dispel their fears. From this standpoint, promoting understanding and raising common knowledge are also urgently required at home and abroad.

The Mountains and Rivers Cannot Separate Them From the Facts

The hubbub of public opinion abroad quickly aroused the Overseas Chinese community, and many people indignantly condemned the Chinese Government or held demonstrations. Among those who came to China to seek the truth, sometimes those making statements or taking actions of this kind were also not lacking in precedents. At times in their travels, some people began to worry that their own statements were too rash.

In contrast, China's Overseas Chinese officials, returned Overseas Chinese, and relatives of those living abroad showed full understanding.

In a small dining room in the Li Du Restaurant, Liao Hui [1675 2547] gave a banquet to entertain a delegation from the U.S. Overseas Chinese community, which was visiting Beijing for informal discussions. As the wine

bottles were passed around, the director of the State Council's Overseas Chinese Affairs Office stated his position with the utmost sincerity: "The current situation is that the Overseas Chinese have some misunderstandings about China. However, I believe that this is different in nature from the unfriendly actions of foreign governments. Although our friends may have misunderstandings of one sort or another about China, these are basically out of their concern and love for China and their concern for the future of the Chinese people. It is from their concern that China's policies are changing, and they do not want to see China's image damaged."

Liao Hui believes that the misunderstandings are due to an incomplete understanding of the true situation.

Liao Hui said, "We cannot say that those abroad totally misunderstand the situation. Nor can we say that foreign news media are totally incorrect in reporting the facts. It is just that no one foreign reporter is capable of understanding the true situation, and some people have deliberately exaggerated and distorted it, making it difficult for Overseas Chinese to objectively and completely understand. In this sort of situation, it is not strange that there are misunderstandings. As they see that the Beijing counterrevolutionary disturbances have been put down, that the situation is stable, and that our policies and programs are unchanged in any respect, with China continuing its reforms and openness, the misunderstandings will gradually diminish, and everyone will draw the correct conclusions."

At the joint national discussion meeting on Overseas Chinese held by the Overseas Chinese Committee of the National People's Congress and the Overseas Chinese Committee of the People's Political Consultative Conference, the committee members also told the overseas compatriots that it was due to misunderstandings that some had published incorrect statements or chose extremist actions, so they should be understood. They believe that, regardless of the situation, the patriotism of Overseas Chinese and their dedication to China will not change.

At the same time, those Overseas Chinese who are in this country can provide some understanding for those who are overseas. As Lin Shuilong [2651 3055 7893], a deputy director in the State Council's Overseas Chinese Affairs Office, expressed it, "The best way to reach an understanding of the true state of affairs and to further comprehension, is to invite our overseas compatriots to come to Beijing and see for themselves, to see whether the situation in Beijing is as terrible as public opinion abroad has publicized it as being. Also, we do not demand, after they have finished seeing this, that they make their positions known or return to the countries where they live and publicize them; all we hope is that our overseas compatriots will make their judgments on the basis of what they have personally seen and heard. Believe in the old Chinese saying: 'Seeing for oneself is a hundred times better than hearing from others.'"

A Dream of a Stable Chinese Ancestry

When the recent Beijing events were brought up, most of the visiting compatriots believed that the cost was too great; as one visitor candidly put it, "I deeply regret all of this."

But some from the Overseas Chinese community who have resided here for a long time are of a differing opinion. Chen Nanxian [7115 7181 0341], who holds a teaching position at the Beijing Iron and Steel University and is a member of the People's Political Consultative Conference's Overseas Chinese Committee, brought up his "theory of making small sacrifices for great gains."

Chen Nanxian said, "There was a price paid in suppressing this counterrevolutionary rebellion, but it would have been difficult not to pay it: The situation was very chaotic at the time, with disturbances breaking out in many places. If Beijing was unable to bring the situation under control quickly, then nationally this chess game would have been damaging, and the damage to China even greater."

When Xiao Cang [5615 1511], vice chairman of the National Overseas Chinese Alliance, spoke at the discussions, he stressed China's need for stability.

Xiao Cang stated that "building a prosperous, powerful China requires that we establish internationally an image of the Chinese people as being normal; this has been the hope of many generations of Chinese. China has gone through the past hundred years of war and turmoil, and then 10 years of Cultural Revolution turbulence. The most critical of our needs right now is stability. Only in a stable situation will we be able to build, reform, and open to the outside, raise the people's standard of living, and further the people's democratic power. If this hope is not fulfilled, then we cannot do any of these things."

Xiao Cang believes that the true meaning of the suppression of the counterrevolutionary rebellion in Beijing lay in upholding the Constitution and safeguarding China's stable prosperity.

A special article in Singapore's LIAN HE ZAO BAO expressed a similar viewpoint. The writer said that, "Although a Chinese resident in Southeast Asia I lack direct contact with China, still the disturbances in China affect the mood of Overseas Chinese so much. And, the peace and strength of China affects the sense of pride of Overseas Chinese."

Perhaps it is a case of great minds thinking alike. The U.S. Chinese-language newspaper ZHONG BAO also published an editorial that said, "If today's Asia, Europe, and even the whole world desire stability and peace, then a China at peace is necessary."

Hearing the Explanation Removed All Doubts

"At dusk, we could walk freely to the train station, to Wangfujing, or along Changan Road. Along both sides of the road were vendors' stalls, lights reflected from the

foodstalls, and everywhere there were the sounds of people. We had absolutely no consciousness of being under martial law."

While the members of the "U.S. Overseas Chinese Community Beijing Visiting and Discussion Group" were staying at the International Hotel, they informally conveyed their impressions to Liao Hui. Group leader Cao Rixin [2580 2480 2450] said, "As our group was preparing to come to Beijing, a great many relatives and friends called, begging us to cancel this trip. Fears about Beijing are exaggerated in the outside world, and these close friends were concerned for our safety. Since arriving in Beijing, we have discovered that the situation is entirely different from what outside publicity would make it out to be."

Cao Rixin and others suggested that since the atmosphere in Beijing is daily becoming calmer, in order to eliminate overseas fears and to try to attract still more businessmen and tourists, the best course for Beijing would be to rescind martial law. If this kind of control cannot be changed right now, perhaps they can somewhat modify what it is called.

After listening to the guests' suggestions, Liao Hui explained that, because China at present still does not have a martial law, many people do not understand what martial law is all about. It is perfectly natural for them to have some fear in their minds. In point of fact, Beijing's martial law is completely different from foreign nations' military control. Beijing's martial law units are simply protecting important departments; the sentries are maintaining order at vital transportation intersections and facilities. At night they inspect ID cards in some areas. Other than this, they strengthen control of entrance and exit in certain areas, guarding especially against flight by wanted criminals. There is no effect on people's normal comings and goings.

Liao Hui also explained to the guests the reasoning behind continuing martial law. Liao Hui said continuation was due to the military units' losing some firearms among the people, and up to now, there has not been a full investigation of some events and those people who participated in and instigated the rebellion. The present continuation of martial law is also to protect stability after suppression of the rebellion. He believes that once Beijing is completely stabilized, it will be impossible to delay rescinding martial law.

These guests from the United States still had some suggestions for Liao Hui, expressing the hope that the Chinese Government would take a broad perspective toward those students who took part in student strikes and disturbances, and give them the opportunity to make amends.

Liao Hui accepted the guests' benevolent and kind suggestions with a smile, but, as he expressed it, students are citizens too, and the law comes before people's equality. However, Liao Hui also asked our overseas compatriots to rest easy, and trust that our judicial

organs can adopt prudent policies, and the size of punishment administered under the law will be in accordance with the situation as to what was expressed by the students in rebellion and their actual crimes. They might also take into consideration the complex nature of the disturbances and the rebellion itself.

As Liao Hui explained, "The government of China operates according to our Constitution and our laws. At present, investigators are looking into who violated our criminal laws, fomented rebellion and engineered the disturbances; who were the organizers and behind-the-scenes manipulators; every kind of illegal chief organizer, core members, and criminal elements who seriously injured the society's public order. For some people, especially young students, who were unclear on the facts and took part in the demonstrations, sit-ins, and the hunger strike or supported them, it is primarily an educational matter. At present there are some students in graduating classes who have stayed on in their schools, and these students themselves are summing up their experiences and the lessons they have learned, and studying some documents."

When the visitors had finished hearing this explanation, one after another they raised their glasses to toast Liao Hui, and stated that his presentation had already removed their own doubts. Moreover, they joked that he should be chosen as the State Council's spokesperson.

Overseas Chinese Policy Will Not Change

The political situation in China is very stable, and the nation's system will not change; no program or policy has changed, nor can our Overseas Chinese policy change.

Of the Overseas Chinese in the restaurant meeting room, sitting around a meeting table were more than 10 members from the delegations visiting the homeland from the U.S. Overseas Chinese Friendship Association and the Southern California Northeast Countrymen's Association. One after another they expressed the concerns that were on their minds and gave their suggestions. In view of the guests' concerns, Li Xinghao [2621 2502 3185], a deputy director of the State Council's Overseas Chinese Affairs Office, assured the visitors. "Where Overseas Chinese are concerned, the Chinese Government will be just as it was in the past; it will continue its attempts to safeguard their normal rights and interests, furthering their unity and mutual cooperation, encouraging them to abide by the laws of the nations where they reside, and become friends with the peoples of those areas. Those Chinese who reside abroad should make a strict distinction between their nationalities and that of Overseas Chinese, and promote their having friendly feelings toward China. At the same time, we hope for and encourage Overseas Chinese and Chinese residing abroad to try their utmost to advance the development of their nations of residence, continuing to open up their cooperative exchanges with China, and advancing friendly cooperation between those nations and China.

We will try with even more enthusiasm to continue to implement every policy on the Overseas Chinese, and furnish even more concern and assistance to everyone's family dependents in this country."

That same day, an official of the State Council's Overseas Chinese Affairs Office told journalists that it was absolutely impossible for China's programs and policies to change, and the Chinese Government would conduct itself exactly as before toward Overseas Chinese in every aspect.

The foregoing declaration of position has drawn comment from outside. Hong Kong's TA KUNG PAO published an article entitled, "Overseas Chinese Policies and the Mind of the Overseas Chinese," with the signing author Gu Jinxin [0657 6930 2450] stating that "this position is to be welcomed."

Liu Liheng [0491 4409 1854], business director of the Australian Overseas Chinese Association, stated that "despite the rebellion or disturbances in Beijing and other cities, I still have confidence in China."

Human Rights Policy Recommendations for West

900ON0072A Hong Kong CHENG MING
[CONTENDING] in Chinese No 143, 1 Sep 89

[Article by Yang Xiaokai]

[Text] A Western double standard on human rights in China is part of the background to the 4 June massacre. This double standard should be abolished, and China should be encouraged to accept human rights provisions.

In the recent efforts by Western nations to deal with the problem of punishing the Chinese Government for the June 4th massacre and the subsequent political persecution of its citizens, they have been in an awkward situation. Imposing strict sanctions could encourage antiforeign sentiment and isolation in China and harm the Chinese people, particularly the liberal elements; and if sanctions were not sufficiently strict, this would not adequately reflect the opinions and standpoint of the governments and people of Western nations concerning these events. We oppose a policy of economic sanctions, but believe that the Western countries and Japan must formulate a mutually coordinated policy toward the question of human rights in China and make use of recent events to explore the usefulness of using such economic measures as short-term deferralment of economic assistance and credits, in order to force China to accept some of the human rights clauses in the Helsinki Declaration as a condition for restoring economic assistance and credits.

The current political crisis in China is influenced by the economics and politics of many countries in the world, and part of the background for the current crisis is the double standard practiced by the West toward China and the Soviet Union. Both the political organization of Chinese students studying abroad, which was formed in

the United States and is called the Chinese People's Union, and Fang Lizhi, China's famous dissident professor, have at one time or another sharply criticized the "double standard" employed by the United States in dealing with the question of human rights in the Soviet Union and China. Among the conditions of the Helsinki Declaration signed by NATO and the Warsaw Pact countries is the stipulation that the Soviet Union and the East European countries respect basic human rights as a condition for conducting cultural and economic exchanges with Western countries, hence the Soviet Union and the East European countries do not consider the deep concern of Western countries toward human rights within their borders as "interference in their internal affairs." Some organizations can legally keep an eye on and inspect the Soviet human rights situation and gather lists of dissidents and political prisoners, and Western leaders frequently meet with dissidents. This consistent policy of the Western countries toward the question of human rights in the Soviet Union has certainly proved to be a driving force behind the political reform and development occurring in Eastern Europe and the Soviet Union.

But when the most important of the Western countries established diplomatic relations with China, the question of human rights was not raised as an important issue. Western countries do not have a mutually coordinated policy on this question, and U.S. handling of applications for political asylum of those from China and Soviet Union clearly reflects a double standard. Early this year, when President Bush visited China and invited Fang Lizhi to a banquet, one consequence was to focus attention on and make known this double standard. Fang Lizhi was barred from entering by Chinese policemen and could not participate in the banquet for Bush, while the Chinese Government considered Bush's invitation an interference in China's internal affairs.

Because the Chinese Government has not encountered consistent opposition to this separation between political and economic relations and human rights questions, the Chinese Government erroneously believes that its human rights violations can coexist with its policy of opening to the outside world and continuing foreign exchanges. As the massacre of 4 June has proved, a government that disregards human rights is a government that does not have the ability to stabilize the political and economic situation. Therefore, the human rights policy of Western countries is not an expedient measure, and is one condition for ensuring that there is no damage to the economic and political interests involved in China's dealings with other countries.

For this reason, after the recent events, the various countries of the West should hold multilateral discussions and come up with a coordinated policy on the question of human rights in China. In the middle term, they should make the drafting of a Chinese edition of the Helsinki Declaration the goal, making the Chinese Government's respect for human rights a condition for

Western participation in development-related, economic, and cultural exchanges, and not allow the Chinese Government to make "combatting interference in China's internal affairs" a reason to disregard the world's deep concern toward China's human rights situation. In the short term, Western countries should mutually coordinate their policies and postpone for as long as possible the issuing of currently suspended economic assistance and low-interest credits (such as Japanese and World Bank loans totaling hundreds of millions of U.S. dollars), and unequivocally notify the Chinese Government that these forms of economic assistance must all be contingent on China's acceptance of monitoring of the human rights situation by the United Nations and other countries of the world. The most immediate requirements should be that China cease to persecute dissidents, that the Chinese Government furnish the United Nations with a list of those killed in the 4 June massacre, and that it report on the interrogations and proceedings against those arrested shortly thereafter, as well as assist the United Nations in providing legal and other services to those accused. Now is the best moment to raise this issue, because after the events of 4 June the Chinese Government suffered from a complete inability to gain the confidence of foreign investors, and when China's human rights problems are very severe, foreign businessmen are unable to have any confidence in business investment prospects, hence, purely business considerations also justify raising this type of investment condition. In addition, this suggestion contains great benefits for China's economic prospects, and the Chinese Government simply cannot reasonably refuse.

UNITED STATES

Ambassador's Transfer Tied to Tiananmen Incident
40050707A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 197, 1 Aug 89 pp 54-55

[Article by Lu Keng (7120 6972): "Han Xu's (7281 0650) Transfer and Sino-U.S. Relations Tainted by the Blood of '4 June'"]

[Text] **Let Us Begin With a Short Story**

When the Beijing student movement first began, when the Beijing students were planning an unprecedented, huge demonstration to commemorate the 70th anniversary of the "May 4th Movement," a long-time resident of Washington, Mr Long Shengwen [7893 4939 2429], received an unexpected long-distance call from Beijing. It turned out to be Deng Xiaoping's daughter, Deng Rong [6772 2827]. She called herself Xiao Rong [5618 2827] when she was working in the embassy in Washington, and that was where she became acquainted with Long Shengwen. On the phone, she told Long that Switzerland was sponsoring a Chinese Economics Symposium and had invited her and Yang Shangkun's daughter, Yang Li [2799 2621], to attend, and on their return trip, they intended to stop over in Washington



Zhu Qizhen
New PRC ambassador to US

and asked Long to throw a party for them in mid-June so that they could meet with Chinese and foreign dignitaries in Washington. Long Shengwen was taken by surprise, because in the past, they were very publicity shy and often reminded him not to tell others about their family background. This time, to his surprise, they actually wanted to appear in public. Just when Long Shengwen began to make active preparations for the occasion, Beijing declared martial law, and there was news of Deng Xiaoping's death. In late May, Long Shengwen received a phone call from Yang Li's husband, Wang Xiaotao [3769 1420 3447], who said that the trip to Switzerland was canceled and asked that the Washington party be canceled too. Long Shengwen immediately arrived at the conclusion that Deng Xiaoping was still alive. If he had indeed died, they would not have had the leisure of calling to cancel an appointment. Later, it was learned from an AGENCE FRANCE-PRESSE Geneva dispatch that, because of the Tiananmen massacre, the Swiss Chinese Economic Association had postponed the symposium indefinitely. But in this news item, there was an obvious error: It mistook Yang Li for Li Peng's daughter and called her Li Yang—foreigners put the surname last. Yang Li is so named in honor of her mother Li Bazhao [2621 4101 6856].

This reflects that in Deng Xiaoping's and Yang Shangkun's hearts, introducing investment opportunities in China to foreign investors was still a worthwhile undertaking, and that was why they delegated their own

daughters to handle public relations. After the Beijing massacre, Deng Xiaoping's speeches give one the impression that he is completely ignorant of the strong international reactions. Can it be that their daughters never talked to their old men about what really happened? Probably, Deng Xiaoping more or less is aware of the outside responses.

Han Xu, the Man and His Dismissal

Back in 1986, or maybe 1987, the CPC authorities had already decided to replace Han Xu with Zhu Qizhen [2612 0796 2823] as ambassador to the United States; even U.S. authorities knew about it. I reported this news in my LU KENG NEWSLETTER, and, soon after, Shi Kemin [2457 0344 2404], Washington special correspondent from Taipei's LIAN HE PAO [UNITED DAILY NEWS], indirectly confirmed this piece of news at the State Department. He even cited an example of how State Department officials put down Han Xu: In 1986, the U.S. president, Reagan, retaliated against Libyan terrorists' killing of U.S. soldiers in West Germany by bombing Tripoli and barely missed killing al-Qadhafi. The United States was applauded by all nations, but Han Xu decried it as an act of aggression. Consequently, Armacost, U.S. undersecretary of state for political affairs, instructed then deputy assistant secretary of state for East Asian and Pacific affairs, James Lilley, to summon Han Xu to the State Department for warning.

Shi Kemin pointed out that the incident was brought on by Han Xu's own rigid dogmatism and that he truly represented the attitude of the CPC. The CPC handles international diplomacy according to its own character and standard, and often there is no logic in the way it plays its cards. For example, during his visit to Washington in the middle of the presidential race between Bush and Dukakis, Deng Xiaoping violated diplomatic protocol by telling U.S. officials that he hoped Bush would win.

It was not in Han Xu's character to make decisions on his own. He always followed Beijing's instructions to the letter. Take a minor matter, for example. Han Xu's sister Shen Chongwan [3088 1504 1354] owns a fairly well-established travel agency in San Francisco. Han Xu traveled extensively and knew that he could get a much better deal by buying his tickets from his sister's travel agency than by going to the airlines directly. But he dared not; he was afraid that it would be wrong. This also reflects his cautious character. Han Xu is very close to his sister. There are 11 brothers and sisters in the family. Besides the three sisters, the brothers are named Xun [6064], Hui [6140], Jiao [2403], Yu [5148], Wu [2976], Jian [0256], Gang [0474], Yi [3015], in that order. The second oldest brother, Shen Chonghui, was a Chinese Air Force hero who bombed a Japanese warship during the War of Resistance. The fourth oldest brother, Shen Chongyu, received a PhD degree in chemistry in the United States and lives in the United States. The seventh brother, Shen Chonggang, is a water conservancy expert

and holds an important position as a hydraulic engineer in China. Han Xu's real name is Shen Chongjian. While studying at Yanjing University, a professor brought him to Yanan, and he became one of the CPC's first diplomats. Han Xu followed Zhou Enlai for many years, and perhaps that had some profound influence on him. During the early days of the Liaison Office in the United States, he was often referred to as "Xiao Zhou Enlai" in Washington.

When the news of the CPC's transfer of its ambassador to the United States was made public, some U.S. newspapers said that Han Xu was dismissed because he supported Zhao Ziyang. This was obviously just conjecture. According to a rumor among Washington insiders, the reason Han Xu was kept on for another year was because he made a good impression on Li Xiannian during his visit to the United States, and Li happens to be in charge of foreign affairs in the CPC Central Committee; he is head of the Foreign Affairs Leading Group. As for why Han Xu was transferred at a time when Sino-U.S. relations are most complicated and uncertain, besides the fact that his term is up and, according to the CPC, that it is a normal staff rotation, it also has to do with the massacre in Mainland China, which not only led President Bush to issue a statement of condemnation but both the House and the Senate unanimously urged that sanctions be imposed on the CPC. In the eyes of those in power in Zhongnanhai, the problem did not stem from their bloody crackdown; rather, it was because Han Xu failed to convince Bush and other VIP's in the United States to accept their explanation for their evil acts and failed to prevent some of his subordinates from publicly breaking with the CPC authorities and seeking political asylum in the United States. More than 40,000 Chinese students in the United States rallied in a protest against the CPC's perverse acts. Instead of questioning itself, Li Peng's government attempted to shift responsibility to others and blamed the diplomatic envoy abroad for not doing a better job. Han Xu's transfer at least serves as a consolation to those in power in Beijing. An official in the State Department who is familiar with Chinese affairs put it well when he said, "With the bloody massacre in Beijing, even Deng Xiaoping himself could not have salvaged the situation if he had been the envoy to Washington."

Zhu Qizhen, Han Xu's Replacement

Today, Beijing has appointed Zhu Qizhen ambassador to the United States. This is but an act of self-consolation to patch things up internally. Zhu Qizhen has been in charge of U.S. affairs in Beijing's Ministry of Foreign Affairs for many years, perhaps he can pick up the pieces in the Sino-U.S. relations. Beijing had no alternative but to make that decision.

Zhu Qizhen, a Jiangsu native, is 61 years old. He is college educated and is fluent in English. He served as diplomatic courier, vice captain of the courier team, embassy secretary in the United Arab Emirates, and embassy attache in Australia. For some time, he was in

charge of the Foreign Ministry's Department of Affairs of the Americas and Oceania, and in recent years, he has been an assistant minister in charge of American and Oceania affairs in the Foreign Ministry.

I met Zhu Qizhen in Washington in 1985. He seemed more friendly and less stuffy than Han Xu. But can the CPC calm the U.S. rage kindled by the bloody massacre in Beijing simply by replacing the ambassador? Of course not. It was not just once or twice, but every day for more than a month that impartial reports let the American people see, read, and hear on television, in the newspaper, and in the square events that shook the earth and moved the gods in Tiananmen Square where the masses of Chinese students struggled for democracy and Deng-Yang-Li's cruel, fascist crackdown. It is not an exaggeration to say that every American family knows Tiananmen Square well; it is a symbol of the Chinese national spirit.

What Americans most cannot tolerate is the CPC's shameless, despicable trick to rewrite history and distort the truth. "Yuan Ersan" ["Yuan Twenty-three"] had the nerve to say that only 23 students had been killed. Nobody was ever killed in Tiananmen Square. The Americans not only detest this kind of shameless lie that "out-Gorby" Gorbachev himself but they are also thoroughly disgusted.

Furthermore, the CPC ignored international warnings and appeals and persisted in the brutal arrests, purge, and crackdown. Quoting Deng Xiaoping's "cut the weeds and dig up the roots," he is determined to go all out to arrest, imprison, and kill people in order to get what he called "10 years of peace and stability." Such cruelty is beyond the American people's imagination. The public demands harsh denunciation of that government and even severance of diplomatic relations. This is one of the reasons why the House agreed by a 416 to 0 vote to condemn the CPC.

From the standpoint of the Bush administration, there is a wide range of considerations. He must consider the public sentiment but also worry about the global strategic situation. So, he must take gradual steps; he must be retrain and take a long-range position.

How the United States Sanctions Against the CPC

To date, the United States has taken the following measures against the CPC:

1. All contacts between the United States and Communist China above the deputy assistant minister level are suspended; therefore, the U.S. secretary of commerce's visit to Beijing, originally scheduled for July, has been canceled.
2. The United States has asked international financial institutions to consider postponing all loans to Communist China. The World Bank has decided to suspend a \$450 million loan, out of a package of \$780 million, earmarked for China. The Asian Development Bank has

postponed review of China's loan application. Several major banks in New York have also suspended plans to extend a combined loan to Beijing.

3. Exchange programs between major U.S. universities and universities in Mainland China this fall are grounded.

4. The United States has suspended arms sales and visits by U.S. military personnel to Communist China, halting all joint military activities between the two countries.

5. At the Group of Seven summit of major industrialized countries, the United States initiated a joint government declaration denouncing the CPC's crackdown on the democratic movement. It urged the CPC to stop the crackdown and also to restore confidence in Hong Kong.

From the U.S. public outcry to the government's sanctions, they represent the strongest reaction the United States has taken against the brutal acts of a foreign regime in 33 years since the Soviet Red Army invaded Hungary and bloodied Budapest in 1956. On this score, Deng Xiaoping has set another world record.

After the Tiananmen massacre, Bush called Deng Xiaoping from the White House, but Deng did not answer. This fully reflects Deng Xiaoping's imperious and despotic personality and his imperviousness to reason. Bush had no choice but to tell the media about Deng's refusal to talk to him on the telephone, hoping this would break the silence. But there was no response.

What Is the Gambit in Bush's Hesitation?

Both houses of the U.S. Congress have unanimously urged that further sanctions be imposed on the CPC. Why is Bush so hesitant? What is the gambit?

On 23 June, several influential senators met secretly with Bush in the White House. Afterward, they told reporters that Bush had not asked Congress to stop criticizing his China policy, but had urged them to be patient with the Chinese Government for the sake of preserving the hard-earned U.S.-Sino relations. Senator Joseph Biden quoted the president as saying, "On that relationship, we still have a long way to go. We must not act in haste."

What is Bush thinking about? From his speeches and the cautious steps the United States has taken so far, Bush's considerations fall under the following major premises: 1) Every act should benefit the United States; 2) it must be conducive to world peace; 3) it must be conducive to the preservation of human rights. In other words, of course the CPC should be censured, but U.S. interests must be protected, the global strategic situation must not be jeopardized nor should Communist China be driven over to the Soviet Union's side, and meanwhile, in order to answer to the U.S. public, human rights must be protected.

Advised by Nixon and Kissinger, Bush's every act has been guided by the principle of avoiding hasty actions that may harm Sino-U.S. relations.

This analysis reflects that the United States must consider one thing: The United States must continue to promote freedom and democracy in China. To quote Bush, "It is its contact with the United States and other Western nations that has promoted economic reform in China. I hope that one day it will also promote political reform in China."

The United States must consider the primary factor of Washington's geopolitical assessments. If China is driven back to the arms of the Soviet Union, it would directly tip the global balance.

The United States must consider that China is its 13th-largest trading partner, and the Chinese market is still growing; Beijing controls the world's third-largest nuclear arsenal; China's energy production also ranks third in the world; its iron and steel production ranks fourth in the world, and China is one of the largest weapons exporters of the world.

The United States must consider Sino-U.S. cooperation over intelligence matters. Both countries have set up surveillance and listening posts in Xinjiang to track Soviet nuclear arms development.

The United States must consider the more than 40,000 Chinese students in the United States. They may very well be the future rulers of China. There are also more than 3,000 American students attending schools in China.

The United States must consider the fact that the "Chinese Sakharov," Fang Lizhi [2455 0536 0037], and his wife, Li Shuxian [2621 3219 1288], are taking refuge in the U.S. Embassy in Beijing.

In short, the United States has many considerations and that is why, although Sino-U.S. relations are seriously strained, they have not been broken off.

Setting Back Sino-U.S. Relations 10 Years

Looking back at the changes in Sino-U.S. relations a month or so after the Beijing massacre, we can make the following conclusion: The bloodshed in Tiananmen Square has set back Sino-U.S. relations 10 years. This is not only a serious blow to the CPC regime and Deng Xiaoping, but also a psychological blow to the Chinese and American people. This blow is an inevitable complication in the long process whereby democracy will eventually bury dictatorship and freedom will bury tyranny. We cannot avoid it; we can only face reality and look forward to the future and strive even harder for democracy and hasten this process as much as possible.

20 July 1988, the United States

Analysis of Propaganda Functions of U.S. Media

90ON0174A Beijing ZHONGGUO QINGNIAN BAO
[CHINA YOUTH DAILY] in Chinese 28 Sep, 6 Oct 89

[Article by Zhang Haitao (1728 3189 3447): "The Consensus and Discord of Public Opinions"]

[28 Sep 89 p 2]

[Text] Now I would like to go into the implementation situation of the propaganda principles created by public opinion makers of the United States.

The propaganda materials of major U.S. public opinion manufacturing companies, including the news reports, articles, commentaries, and editorials of large newspapers and magazines and the programs of radio and TV stations, have multifarious contents and forms which confuse and dazzle the public.

I think that this can be considered as a reflection of the diversity of U.S. society, which is a strong point of the U.S. media and has a certain degree of rationality. When I say this, I mean to exclude those extremely ugly and corrupt materials.

However, if we see through the formality and examine the content, we will be able to see that there is a clear line of demarcation in the propaganda of these public opinion manufacturing companies. That is, as far as the situation as a whole and the leading part is concerned, they reflect only the thinking, stance, viewpoints, policy, and position of the bourgeoisie and monopoly capitalist groups who occupy a dominant position in the United States; those of proletarians, who account for the majority of the U.S. population and occupy a subordinate position, however, are excluded. This is especially so with the communist movement.

The public opinion manufacturing enterprises of the U.S. bourgeoisie like to flaunt the banner of objectivity and justice. In my opinion, such objectivity and justice sometimes exist and sometimes do not, depending on the circumstances, targets, and cases. It depends on the overall interests of the bourgeoisie or monopoly capitalist groups as well as the immediate interests and needs of bourgeois factions and groups represented respectively by each public opinion manufacturing enterprise.

The U.S. bourgeoisie has a congenital disease, namely "communist phobia." The public opinion manufacturing enterprises of this class also suffer from this disease, but the seriousness of their disease varies according to time, location, and conditions.

Marxist thinking of scientific communism spread to the United States way back during the 1850-60 period. At first, the U.S. bourgeoisie's attitude toward Marxists was not too bad. After the Civil War, the capitalist mode of production developed quickly in the United States, and the confrontation and struggle between the two major classes of capitalists and proletarians became increasingly acute. As a result, the bourgeoisie's attitude toward Marxists changed. The history of the U.S. labor movement in the 19th century since the 1870's and the history of U.S. communist movement since the beginning of the 20th century are the history of proletarian persecution carried out by capitalists, with sometimes strict and sometimes loose, sometimes open and sometimes covert, and sometimes soft and sometimes hard tactics. It is also

the history of antipersecution by proletarians and their vanguards. You will understand this point if you just take a look at *History of the U.S. Communist Party*, written by William Foster. Leniency exists too. As long as he throws you to the ground and makes sure that you are dying and unable to cause him any harm, he will let you live and exist so as to keep up the appearances of "democracy" and "freedom." This may also count for a kind of leniency. If not, then there will be no leniency.

In this period of history, U.S. bourgeois public opinion manufacturing enterprises participated in different ways and to varying degrees in the punitive expedition against the "ghost of communism." In this regard, public opinion was generally unanimous in the United States.

In the 1950's, an upper-class newspaper in the United States, NEW YORK DAILY FORUM, still had the courage to publish Karl Marx's commentaries on international issues. It even published some of Marx's articles as its own editorials. Now U.S. bourgeoisie no longer has such boldness of vision. For about 6 years in the 1970's, I was in New York, reading major U.S. newspapers and magazines and listening to and watching major radio and TV stations. I saw and heard a variety of views and voices, but I never saw or heard Marxist views and voices that truly represented U.S. proletarian views and voices. Was there a group of true Marxists in the United States at that time? Yes, there was. Not only did it exist, the rank of Marxists grew and expanded along with the flourishing of U.S. blacks' and workers' struggles and especially the people's antiwar struggle based on students in the second half of the 1960's. I feel that U.S. bourgeois public opinion manufacturing enterprises had built an effective blockade against these Marxists, like putting up an insulating board or building a wall, so we cannot see such views or hear such voices at all. As far as this point is concerned, the opinions of the U.S. bourgeoisie were unanimous.

In relation to this aspect, there is another issue of attitude toward the international communist movement and socialist countries. Let's first set aside others and talk only about the attitude toward socialist New China. Under the leadership of the CPC, Chinese people carried out an extremely arduous struggle to overthrow the rule of imperialism, feudalism, and bureaucrat capitalism in China. Such struggle won the respect of American people and the founding of socialist New China was warmly welcomed by the American people. However, U.S. bourgeois public opinion manufacturing enterprises adopted another attitude. During the 22-year period from 1949 to 1971, they constantly criticized socialist New China, saying that we did everything wrong and nothing right and that we were just awful. Of course, there was a reason why they adopted such a propaganda principle toward China. To carry out external aggression and expansion, U.S. monopoly capitalist groups needed to conduct anti-Chinese, anticommunist, and antipeople propaganda. To consolidate their own political rule at home, they also needed to conduct such propaganda.

As far as this point is concerned, the public opinion of the U.S. bourgeoisie was unanimous.

You mentioned the question of how to look at the fact that major U.S. newspapers, magazines, and radio and TV stations publish articles and air speeches of different viewpoints.

The truth is this: Those who are invited to publish articles and speeches in major U.S. newspapers and magazines, including those whose views are different or even diametrically opposed to each other, are mostly famous persons in the upper class of U.S. society. Many of them are either current or former government officials. Those who are invited to give speeches or participate in symposiums or discussions in radio and TV stations are also the same. Because of this, these different opinions and debates basically belong to the differences and controversies between different power groups or between different factions within the same power group. Those who are invited to participate in symposiums or discussions on television sometimes also include ordinary people. When the topic of discussion is marriage, family, and the relationship between opposite sexes, a fairly large number of participants are ordinary people. But generally speaking, they are, after all, costars who cannot change the basic nature of such a symposium and discussion.

You asked: Do major U.S. newspapers, magazines, and radio and TV stations publish or air the articles and speeches of ordinary people?

My answer is: I myself at least have never seen any major U.S. newspaper or magazine publish a long article written by an ordinary worker or any major radio or TV station conduct a special interview with an ordinary worker or air his long speech. But, when something happens, newspaper, radio, and TV reporters, during their coverage of the event, often invite some ordinary people to make brief speeches to express their opinions on the event which will then be published in newspapers and magazines or aired in radio or TV programs. I admire very much their practice and consider it an expression of openness. But since this is, after all, not the main melody played by public opinion manufacturing enterprises, it cannot change their basic class affiliation.

You asked: Don't major U.S. newspapers and radio and TV stations also report on the struggle of workers' strike?

It is like this. Of course, they do not report all strikes. But with regard to large-scale and wide-influence U.S. workers' strikes, some major newspapers, magazines, and radio and TV stations make selective reports. Some can even reflect to a certain extent workers' sufferings and anger. I admire very much their practice and consider it an expression of openness. However, it is necessary to point out:

First, not all bourgeois public opinion manufacturing enterprises can do so. Making such reports are mainly those bourgeois public opinion enterprises that are more liberal.

Second, some public opinion enterprises make such reports because of the following two reasons: 1) They want to guide the masses of workers toward the road of reform and the road of labor-capital cooperation to prevent them from developing revolutionary tendencies. 2) They want to prove the correctness of the reformed political program of their faction to fight the opposition factions in their class.

Third, judged from the situation as a whole, the public opinion propaganda of U.S. bourgeoisie is to put pressure on the struggle of workers' strikes and to prepare public opinion to oppose the struggle of workers' strikes. One of the major arguments in their propaganda that I read when I was in the United States is that increasing wages and improving benefits according to the demands of striking workers can cause a wage-price spiral and aggravate inflation. Such propaganda does not match the actual conditions of the United States, but it can influence public opinion and subject striking workers to unjust criticism.

[6 Oct 89 p 2]

[Text] You asked: Didn't the U.S. media oppose the U.S. Government's engagement in the war of aggression in Indochina?

Yes. But, except for a few enlightened newspapers, major or most U.S. bourgeois public opinion makers went through a process of change in their attitude toward this external war of aggression. When the Kennedy administration started the "special warfare" in southern Vietnam in 1961 and when the Johnson administration created the "Gulf of Tonkin (Northern Bay) Incident" in 1964 and elevated this war of aggression by a large margin, the support of U.S. monopoly capitalist groups for this war was basically unanimous. Except for a few persons with foresight, almost no one had any different opinion. To suit this situation, the propaganda principle of U.S. bourgeois public opinion manufacturing enterprises also supported engagement in this war of aggression and vigorously banged the drum for it. However, after Johnson substantially increased the number of troops, the situation of the war was still not favorable to U.S. troops and the hope of military victory was slim. Since Chinese people firmly supported Vietnamese people in their struggle to resist U.S. aggression and save their country, and, since the peoples of the world, including the Soviet Union and the East and the West Europe, and the governments of many countries unanimously denounced and condemned the United States for engaging in the external expedition, the U.S. Government became unprecedentedly isolated in the world. Especially because of the rise of the antiwar struggle of American people and the serious diseases caused by this war to the U.S. economy, the rule of U.S. monopoly capitalists fell into dire straits at home. Due to all these reasons, beginning in 1966 a propeace group emerged among the people of ruling groups inside and outside the U.S. Government and within the ruling and opposition parties in sharp opposition to the prowar group. U.S.

monopoly capitalist groups were severely split on this issue of war. Under this background, some of the bourgeois public opinion manufacturing enterprises that originally supported engagement in this war of aggression turned to oppose its continuance. Such a change was most typical in THE NEW YORK TIMES. When it supported the war, it sang the strongest note. Later, when it opposed continuing the war, it also sang the strongest note. In 1971 it took the lead in publishing secret government documents on the war and created the famous "Pentagon Papers Case." Its later performance was, of course, a kind of progress that was objectively conducive to American people and the peoples of the world, so it should be welcomed. However, we should also notice that its change was still initiated by the political and economic interests and needs of U.S. monopoly capitalists. It was still a reflection and expression of the will and policy intention of U.S. monopoly capitalist groups (mainly the monopoly capitalists of the eastern United States). In other words, it was totally different from the antiwar struggle of the American people. It belonged to a different class category.

You asked: Didn't U.S. media change their attitude toward China?

My answer is yes and no. Compared to the past propaganda principle that regarded socialist New China as an enemy, U.S. bourgeois public opinion manufacturing enterprises have indeed changed. They have also done some work to help develop Sino-U.S. relations (with exceptions of course). But on the Taiwan issue, their stance still violates the sovereignty and interferes with the internal affairs of China. This has not changed. On many other issues, their prejudice is still deep-rooted. Now and then they still make unfriendly and harsh sounds toward our country. This has not changed either. Their expression is still an reflection of the interests and will of U.S. monopoly capitalist groups.

Here I have excluded those friends who have a sense of justice in the U.S. media. They are not only enthusiastic and friendly, but have provided as much support as they can for the Chinese people and their undertakings. They are the representatives of American people.

Above is the consensus of opinions in the U.S. bourgeoisie.

But the constant status of opinions among U.S. bourgeois public opinion makers is discord. Their viewpoints, opinions, and words often differ on domestic and foreign political, economic, and military situations and on countermeasures adopted by the U.S. Government.

The U.S. Government is distinguished by parties. It is either a Democratic or a Republican government. The entire administration changes as the president does. The president and other high-ranking government officials wear either the symbol of the donkey (Democrat) or the elephant (Republican). However, standing behind them are different monopoly capitalist powers or power groups. For a long time, the U.S. federal government was

controlled mainly by bourgeois forces and monopoly capitalist groups based in the eastern part (northeastern to be exact) of the United States. During the period of the Nixon and Reagan governments, this situation began to change—only a beginning. The so-called east-based monopoly capitalist groups or eastern power groups are not a single, unchangeable entity. They include many different groups, and the formation of such groups is changing constantly. Due to the difference of operation priorities, the interest relations of different monopoly capitalist groups are not totally unanimous. In some areas, they are even sharply opposed to each other. Monopoly capital concentrated in the war industry prefers arms expansion, war preparations, and external expeditions, whereas monopoly capital concentrated largely in the civilian industry is much less enthusiastic about such things. Monopoly capital involving many transnational companies prefers external expansion, whereas monopoly capital relying mainly on domestic resources and markets often advocates "isolationism," and so forth. Public opinion manufacturing companies representing each of these monopoly capitals or capitalist groups often have different attitudes toward the government of different symbols (either donkey or elephant) on different policy issues during different time periods. Their attitudes toward different issues on the domestic and foreign policies of the same government are often different too. They often approve some and oppose others without any kind of pattern, thus forming a complicated picture. Facing such a complex situation, U.S. presidents and high-ranking government officials cannot but be extremely cautious in their words and actions. They have to be prudent in everything for fear that their mistakes may be exploited. Some people think that this is the supervision of U.S. media on the U.S. Government. I think it is okay for them to say so. But the focus of attention of such supervision is not people, but the interests of their own groups.

The difference of interest relations is the basic cause of discord in public opinion.

However there is another situation. The propaganda department of the U.S. Government is the U.S. Information Agency and its subsidiary, the Voice of America radio station. Relevant U.S. laws stipulate that this government propaganda organ should engage only in external propaganda and is not allowed to compete with private public opinion manufacturing enterprises for propaganda positions at home. The external broadcast programs of this propaganda organ are, of course, mostly publicity for the domestic and foreign policies of the U.S. Government and the stance of the U.S. Government on major international issues. But now and then they are also mixed with some dissenting voices against current policies of the U.S. Government.

Once, during a conversation with a friend in a responsible position in the U.S. Information Agency, I brought up this issue. This friend said, "Mr Zhang, we have to do so. If not, readers and audience will not believe us." This friend was being very frank.

In other words, this organ in charge of publicizing to foreign countries the official stance and policies of the U.S. Government mixes some dissenting voices in its own propaganda in order to show that they are objective and fair, thus winning the trust of the audience and making the audience believe the propaganda. In other words, mixing some noise in their propaganda is a tactic, a propaganda trick and medium.

In my opinion, this is also another cause of discord in the opinions of U.S. bourgeois public opinion manufacturing enterprises.

In addition, I would like to say a few more words that are just common sense. That is, the United States is a society of classes and a country controlled by the class of monopoly capitalists. This is a world-known fact, not a secret. Therefore, when we observe U.S. affairs, we should use the basic viewpoints of Marxism as a guide and apply the method of class analysis. We have to do so when it comes to the issue of freedom. We cannot discuss the freedom of the United States without considering the concrete historical conditions of class society and the antagonism between capitalists and proletarians. I have read, in Chinese newspapers and magazines, some articles entitled and based on such topics as the "American" concept of value and "American" concept of freedom. It seems inappropriate for Marxists to discuss "Americans" in such a generalized and sweeping manner.

SOUTHEAST ASIA/PACIFIC

Assessment of Cambodian Settlement Conference

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[Article by Yang Mu (2799 2606): "International Conference on the Cambodian Issue: An Intense Diplomatic War"]

[Text] Because Vietnam and Phnom Penh both lacked sincerity and stuck to rigid positions, the international conference on Cambodia was adjourned after a month of discussion and debate without reaching any agreements.

This international conference in Paris gathered together foreign ministers and leaders from 23 different parties, including 19 countries, which have some connection with the issue of Cambodia. The foreign ministers of France and Indonesia served as the two chairmen. In terms of size, this was the largest international gathering on the issue of Cambodia in the last 11 years. In terms of the breadth and depth of discussions on the issue, it was unprecedented. In terms of the struggle's intensity and its serpentine twists and turns, it was a rarity. This diplomatic battle revolved primarily around Cambodia's three resistance factions and Vietnam. The other delegations stayed away from center stage and expressed their respective viewpoints concerning the issue. The opposing positions were clearly staked out, and negotiations and debate occurred simultaneously. The more the

issue was debated, the clearer it became, and the world was finally able to see clearly the real nature and the crux of the problem.

For the last 11 years, the struggle over the issue of Cambodia has been fought on three battlefields. The first battlefield has been on Cambodian soil, where a war has been fought between invaders and those who have resisted the invasion. The second battlefield has been a worldwide diplomatic war. The third has been a war of propaganda. Vietnam relied primarily on military offensives against the anti-Vietnamese forces from late 1978 through 1985, and relied secondarily on political and diplomatic enticements and pressure. They had no intention of finding a political solution. The high water mark of their military offensives came during the seventh dry season offensive from November 1978 through March 1985. At that time, although Vietnam captured most of the bases along the border between Cambodia and Thailand that belonged to the three factions of the Coalition Government of Democratic Kampuchea, they forced the troops of the resistance forces to operate inland. Thus, a new situation arose: The war entered a stalemate, the Vietnamese offensive weakened, the problems of the domestic economy grew worse, and international pressure grew. Only then did Vietnam change its strategy and begin to rely primarily on political and diplomatic struggle, and secondarily on military offensives. It was forced to agree to participate in the process of seeking a political solution. The Coalition Government of Democratic Kampuchea sincerely hopes for a political settlement to the issue of Cambodia, and has, therefore, yielded repeatedly, bringing forth its "Eight Proposals" in March 1986 and Sihanouk's "Five-Point Peace Plan" in July 1988. In July 1988 the Coalition Government of Democratic Kampuchea began face-to-face talks with Vietnam and the Phnom Penh regime. Thus, the diplomatic war over the issue of Cambodia was now waged not only in the UN General Assembly every year, but was also carried beyond the United Nations. This year, the military situation in Cambodia is relatively quiet, and the primary battlefield has shifted to the diplomatic arena.

To continue with the imagery, the current diplomatic war has been fought in three separate "battles."

The first battle was fought over the question of whether there should be a total settlement or a partial settlement to the issue of Cambodia. Before the Paris conference was ever held, Vietnam had already agreed that the Cambodian issue should be divided into an "international part" and a "domestic part." It further hoped that the Paris conference would first reach an agreement on "the international part" and let the four factions in Cambodia discuss a solution to "the domestic part" in their own good time. According to Vietnam's wishful thinking, it would declare that it had carried out a "complete troop withdrawal" after withdrawing 26,000 troops from Cambodia in late September. After relieving itself of its own "invader" label, it would demand that other countries cut off their support to the resistance forces. This would make it possible to crush the three resistance factions,

and Vietnam could continue to control Cambodia. However, a conference in early July of foreign ministers from the six ASEAN nations issued a communique stating that "the foreign ministers emphasize that a total political solution to the issue of Cambodia problem must be found." During the opening ceremonies of the international conference in Paris, the two chairmen also called upon all parties to "earnestly discuss" the issue of "a total political settlement." The great majority of the foreign ministers hold that a total solution, not a partial one, must be found for the issue of Cambodia, and that the experience in Afghanistan, in which a partial solution has been followed by the outbreak of civil war, must not be repeated. Soviet Foreign Minister Shevardnadze stated in a speech to the conference that a lesson must be learned from the manner in which the Afghanistan problem was resolved, and that a total solution to the Cambodian problem must be found. At that point, the issue of a total political settlement became the main theme of the conference. Vietnam and Phnom Penh dared not oppose it directly, and could only surreptitiously set up obstacles or await an opportunity to deflect the thrust of the proceedings. The establishment of working committees under the auspices of the international conference also aroused debate. The program proposed by the host country, France, called only for the establishment of three working committees, which would discuss the Vietnamese troop withdrawal; international oversight, international guarantees, and the return of refugees; and the rebuilding of the nation. This ran the risk of overlooking or cutting out the most important issue of establishing a temporary coalition government composed of the four Cambodian factions. The delegates from the United States and Singapore proposed establishment of a fourth working committee to discuss this most important issue, but met with opposition from the Soviet delegate. At that point, the two chairmen proposed a compromise: establishment of a special committee to discuss the issue. Only in this way did the total solution gain an organizational guarantee. On the afternoon of 30 August, as the international conference was about to end, the Vietnamese ambassador to France, while strolling through the hallways at the conference site, aired the proposal by Vietnam that the two chairmen or the Paris international conference send someone to Cambodia to "oversee" Vietnam's "total troop withdrawal" in late September. Then Sihanouk retorted sharply that "until the Coalition Government of Democratic Kampuchea and Phnom Penh have disbanded and a coalition government of the four factions is established, we absolutely refuse to consent to having an international fact-finding team sent to Cambodia." Thus, Vietnam's plot to attain a "partial settlement" was again smashed.

The second "battle" was waged over the issue of the role of the United Nations. Back on 14 July, Nguyen Co Thach, the Vietnamese minister of foreign affairs, declared in Jakarta that "the United Nations has preserved a seat for the Khmer Rouge for the last 11 years, and has passed a series of resolutions demanding a

Vietnamese troop withdrawal. We do not wish to see the United Nations play any role until it stops seeing only one side of the issue." On the basis of this viewpoint, Vietnam has consistently viewed the United Nations with hostility and has attempted to work around the United Nations's organizational structure by opening up other diplomatic channels for discussion of the Cambodian problem. Before the Paris international conference, Nguyen Co Thach opposed de Cuellar's participation in this conference in his capacity as secretary general of the United Nations, stating that he could participate only as a private individual. However, the overwhelming majority of the conference participants declared that the importance of the UN role in the issue of Cambodia must be recognized. This beat back Vietnam's plot to hold the United Nations at bay. The UN secretary general was accorded a highly courteous reception. The five permanent member nations of the UN Security Council played an important role during the course of the conference, and the spirit of the resolutions regarding the issue of Cambodia that have been passed by various UN General Assemblies were built upon. These facts indicate that Vietnam was in an isolated position in this battle. However, due to Vietnam's opposition, this international conference was unable to reach consensus or pass any resolution regarding the role of the United Nations in any oversight body.

The third "battle" involved the debate over "genocide" and the issue of illegal Vietnamese immigration into Cambodia. In the two Jakarta talks, Vietnam used the strategy of harshly attacking the Khmer Rouge's (that is, Democratic Kampuchea) "genocidal" policies during its time in power. The purpose was to isolate Democratic Kampuchea and thereby split the three anti-Vietnam factions and incite everyone to concentrate their attacks upon the Khmer Rouge. This was also the strategy that Vietnam intended to use in the Paris conference. Vietnam tried to utilize this point as an opening to push a distorted view of the nature of the Cambodian war and cast itself in the role of "voluntary troops" and "saviors" who had entered Cambodia. If Vietnam could have successfully palmed off its theory of "genocide," Democratic Kampuchea would have lacked the right to participate in any Cambodian government, and the temporary government of Cambodia could not have consisted of four parties, but only two.

However, during the second phase of the international conference, in which the various committees met, Singapore's delegate spoke righteously. He stated that, according to international law, the term "genocide" implies a situation in which a foreign invader uses every sort of cruel method to exterminate an oppressed ethnic group. Hitler's massacre of the Jews was an event of this nature. The "Khmer Rouge" is not a foreign invader, so they cannot be labeled as "genocidal." Some delegates pointed out that Vietnam has carried out "genocidal" policies. It has created refugees and famine in Cambodia and, in a purposeful and planned manner, sent more than a million Vietnamese immigrants into Cambodia in

the wake of the Vietnamese Army. Many of these people are armed personnel who are a threat to the existence of the Cambodian people as well as to the return of the refugees. In the meetings of the three work committees, Vietnamese immigration became the focus of much discussion, and came to be linked with the issues of "genocide." Sihanouk and Son Sann stated clearly that, in speaking of "genocide," one must include the years from 1975 to 1989, thus including the 11-year Vietnamese invasion of Cambodia. The total withdrawal of all Vietnamese ought to imply the withdrawal of all illegal Vietnamese immigrants since 1970, especially armed personnel. The delegates from Vietnam and Phnom Penh had not foreseen that their favorite incantation, "genocide," would be turned against them.

This diplomatic war has shown that "when you walk a righteous road, many will support you; if you walk an evil path, you walk alone." It has also served as a beacon for all international forces that love peace, support justice, and oppose invasion. That the Paris international conference

adjourned without reaching any agreements illustrates the fact that conditions are not yet ripe for a total political settlement to the Cambodian problem, and it also is an indication of the stubborn position of Vietnam and Phnom Penh. Due to their obstructionism and provocation, there was a surprising total of more than 370 reservations and dissenting opinions expressed by the various committees regarding the final draft document of the conference, which, therefore, was not passed. On the closing day of the conference, the brief final statement of the conference was changed numerous times, and won unanimous consent only after more than 8 hours of debate. This is ample illustration that it is no exaggeration to term this international conference a diplomatic war. Since adjournment of the Paris international conference, people have continued to hold out hope for the next conference. On the other hand, they have turned their eyes toward the Cambodian battlefield. They are observing intently to see what new tricks the Vietnamese invaders (who are so adept at playing double-edged tactics) are up to.

Tendencies in Ideological, Political Work

900N0104A Shenyang LILUN YU SHIJIAN [THEORY AND PRACTICE] in Chinese No 7, 5 Sep 89 pp 18, 19

[Article by Hou Guining (0186 6311 1337): "Three Tendencies We Should Avoid in Ideological and Political Work"]

[Text] Ideological and political work has been weakened for some time because of the complex social environment. Moreover, ideological and political work itself has been biased in certain respects.

1. *We should not "avoid the unimportant and pay attention to the important." We should take a clear-cut stand in determining our ideological and political work tasks.* For a while now, the basic task of ideological and political work has been diffused by a rather strong cry for improving ideological and political work. The obvious manifestations of this are in using excessive bonuses to motivate the enthusiasm of the people, using various punishments to make the people maintain a conscious respect for order, and so forth. On the other hand, there is very little call for teaching Marxist-Leninist-Mao Zedong Thought to the people or improving their ideological awareness. It has even gotten to the point that "whoever mentions Marxism-Leninism will be mocked and coldshouldered" in certain places. Actually, the fundamental tasks of ideological and political work are to educate the people using the basic theories of patriotism, collectivism, socialism, communism, and Marxism; to make them adopt proper outlooks; to master correct ideological and work methods; and to ceaselessly improve their understanding of the world and the potential to change it. Here, the important emphasis is on "education." We cannot neglect this basic task of "educating the people," although, of course, in order to arouse the awareness of the masses for ideological and political work we cannot deny certain other flexible methods for caring for and motivating the people that have been adopted as aims of struggle and tasks for the party. Only by completing this basic task can ideological and political work attain its ideal aim. It will be difficult to avoid having ideological and political work deviate from its established course if we merely expend effort on fulfillment of tasks other than the basic one, if we are vague about the basic task, or even fling it aside. Therefore, we should take a clear-cut stand on the basic task of ideological and political work and allow it to take a course worthy of the name.

To make ideological and political work take a course worthy of the name, we cannot avoid the issue of "inculcation." "Inculcation" is a method that we have used to educate the people in Marxist-Leninist-Mao Zedong Thought. However, because certain inculcators used "ossified" and "dogmatic" methods to inculcate the people, the broad masses reacted against "inculcation." We cannot deny that ossified and dogmatic attitudes and methods actually influenced the masses' morale. Nevertheless, just because they have done so we

definitely cannot deny these forms and methods of "inculcation." "Inculcation" is an effective method for making relatively many people understand rather systematically the basic theory of Marxism within a rather short period of time. If we do not clearly utilize or even avoid this tool, would be equivalent to relaxing to a certain extent the education of the masses of people in Marxist-Leninist-Mao Zedong Thought. This would lead to various kinds of anti-Marxist-Leninist and antisocialist ideologies running rampant. Because we do not "inculcate," the opponents will do so. They will take the opportunity to inculcate anti-Marxist-Leninist and antisocialist ideologies among the people. Therefore, in practice a pressing demand is to use active and lively methods to inculcate Marxist-Leninist-Mao Zedong Thought in the masses of the people.

2. *We should not merely "substitute specialists for non-specialists." We should enhance the establishment of a specialized ideological and political work force.* These phenomena have appeared in previous ideological and political work: On the one hand, we suggest energetic strengthening of ideological and political work, while on the other hand we weaken the creation of a specialized political work corps. Ideological and political work has been seriously weakened as a result of depending on some personnel's use of concurrent posts to devote their spare time to it. The essential question here is how to treat ideological and political work. Ideological and political work is "work" first of all, important work. It is an important part of our party's establishment. It is an important essential part of socialist development. This work should be the same as other kinds of work in having its own specialized force. Second, ideological and political work is a science. Since this is so, we should treat it with a scientific attitude and study it more strongly in the same manner reserved for other sciences. Toward this end, on the one hand we must augment personnel and create a purely specialized ideological and political work corps, ensuring that they have full strength in organizational terms. On the other hand, ideological and political workers must have inspirational spirits, truly strive for self-cultivation, improve their own theoretical levels, and concurrently pay attention to the art of ideological and political work, striving to do a good job in the party work given to them. Of course, to strengthen the specialized political work corps is not to eliminate the nonspecialized corps. We should accept those who are happy to make a contribution to ideological and political work while engaged in other jobs, and create a nonspecialized ideological and political work corps. There are great advantages to bringing into full play the role of ideological and political work. Nonetheless, we can neither use them as substitutes for nor allow them to weaken the specialized corps.

3. *We should not merely "mend the fold after a sheep is lost." We should engage in long-term, thorough ideological and political work.* Given that there has been a series of problems under circumstances adverse to ideological and political work, more and more people have recognized the importance of it. Thus, the call to augment

ideological and political work has been sounded. Problems have appeared. It is necessary to adopt measures to resolve them, but still more is needed. In the past few years, ideological and political work has been stressed sometimes and lax sometimes due to the mistaken guiding ideologies of individual leaders. It ultimately could not play an effective role because during times when it was "stressed," it "could not be stressed," and when it was "lax," it was "even more lax." Ideological and political work is the work of "man." Man's ideology is not formed overnight. Likewise, the goals of man's ideological work cannot be gotten in one step. Steady, long-term ideological education is required. In this

regard we must do the following: Have an overall, long-term strategic plan that is within a long-term system allowing it to be realized; have ideological and political workers who themselves change the corps of political workers from a step toward "professional glory" that does not work on long-term ideology; change the political worker corps from "drifting along aimlessly"; be really determined and truly study, resolving to devote our entire lives to the science of ideological and political work. In this way, ideological and political work will make new breakthroughs and the ideological awareness of all nationalities will be greatly improved.

NATIONAL AFFAIRS, POLICY

Enterprise Merger Pitfalls, Problems, Remedies

90OH0056A Chongqing GAIGE [REFORM] in Chinese
No 5, 20 Sep 89 pp 145-150]

[Article by Wu Deqing (0702 1795 1987), Li Yixin (2621 4135 2450), Du Jianjun (2629 1696 6511), He Jing (0149 7231), Wang Yan (3769 1484), Liu Jialong (0419 0502 7127), and Xue Youzhi (5641 2589 1807), Research Problem Unit, Industrial Economics Department, Chinese People's University: "Exploration of Several Problems in Enterprise Mergers"]

[Text] Enterprise mergers are a new phenomenon that has appeared in the reform of China's economic system in recent years. Once they appeared, they exhibited a powerful momentum toward development, spreading everywhere through the country from Wuhan and Baoding. Why do enterprise mergers have such great vitality, and just what major roles can they play in China's economic reform? What are the main problems in China's enterprise mergers? What can be done to perfect and give impetus to enterprise mergers in China? It was with these problems in mind that we conducted an on-the-ground survey in Wuhan where we looked at scores of enterprises that had merged, obtaining some preliminary understanding.

I. The Role of Enterprise Mergers in China's Economic Reform

A. The Role of Enterprise Mergers in Increasing Supply and Harnessing Inflation

The way to eliminate inflation is to restrain demand and increase supply, but restraining demand is only a palliative; curing the problem at its roots requires an increase in supply. However, if we resort to increased investment to expand supply, given China's present shortage of financial resources, this will hardly do. Furthermore, increased investment may give rise to an attendant expansion of demand, running contrary to the need to restrain demand. However, enterprise mergers can effect an expansion of supply through the regrouping of production factors without increasing investment. The irrational organizational structure and production structure existing in the country's enterprises enables countless failing enterprises to get hold of large amounts of fixed assets and funds. Not only are they unable to create wealth or provide accumulations for society, but, on the contrary, they become a burden on the country's financial resources. However, enterprise mergers enable the concentration of material assets in highly efficient firms and enterprises, and enable idle funds to flow toward regions, firms, and enterprises in which the output rate from capital is high. Thus, limited financial resources can be more rationally allocated, thereby making possible a very great increase in both macroeconomic and microeconomic returns from the country's socialist construction, rapidly expanding the scale of production. If all the idle and improperly used fixed assets and idle funds in the country's state-owned enterprises flowed rationally and were put to

work, they would play an inestimable role in expanding supply and restraining inflation.

B. The Role of Enterprise Mergers in Building and Perfecting a Socialist Market System

One important feature of a market economy is the separation of the men from the boys through competition, enabling an optimized allocation of resources. Enterprise mergers allow those enterprises that are strongly competitive, produce good economic returns, and have potential for development to buy failing and inferior enterprises, thereby enabling a shift in the use of social resources from low effectiveness to high effectiveness. Furthermore, in order to forestall being the object of a merger, every enterprises will strive to improve its operation, thereby intensifying market competition, enabling the market to genuinely play a role in preserving the superior and weeding out the inferior.

At the same time, the development of a commodity economy has been linked historically to the commodity exchange market system. In the building and perfection of a socialist market system, not only is it necessary to have commodity markets and production factor markets, but also to build and develop enterprise markets. This is because the role of the market mechanism in resources allocation is limited by the degree to which the economy is a commodity economy. If one acknowledges only the fruits of labor and production factors to be commodities, then the regulatory role of commodity prices in optimum allocation of resources cannot be realized. In other words, development of the commodity economy itself is bound to lead to the delimitation of enterprise property rights and making enterprises commodities, i.e., enterprises themselves enter markets as objects to be exchanged.

The advent of enterprise mergers may place assets in the category of commodity exchange, making possible the optimum grouping of assets. As the scope of enterprise mergers expands further, inevitably associated reform of capital, real estate, equipment leasing, and the labor system will be required, thus giving impetus to further development of capital markets, real estate markets, equipment leasing (or transfer) markets, spurring the growth and steady perfection of the entire market system.

C. The Role of Enterprise Mergers in Spurring Reform of the Enterprise Property Rights System

The property rights issue is a major topic that reform of the country's enterprise system faces. Unclear property rights relationships have been a basic shortcoming in China's traditional property rights system; however, this problem has not been addressed for a long time. The advent of enterprise mergers put this problem on the daily agenda.

As a kind of enterprise property rights exchange activity, enterprise mergers are bound to require defined property rights relationships first of all. This is a prerequisite for the existence and development of enterprise mergers.

This is because only when the objects of property rights exchange are clearly defined can the questions of payment for turnover of property rights and the ownership of newly added assets following merger be answered. Only then can an incentive for merger be generated; only when the area of transactions is defined clearly can there be rules to abide by; and only then can there be no occurrences of enterprises "exchanging property that belongs to society, or property that is not their own." However, the actual situation is one of ill-defined enterprise property rights. The unwillingness of enterprises to increase the value of assets for the state without compensation, and their lack of strong motivation to merge, have, to a very large extent, impeded use of the benefits mergers provide. Therefore, for enterprise mergers to be made in a completely rational way, the traditional property rights system has to be reformed for gradual clarification of property rights relationships.

D. The Role of Enterprise Mergers in Developing the Country's Entrepreneurial Blocs

When enterprises began to form lateral partnerships, in order to reduce frictions with the old system and get lateral partnerships started, the principle of "three no changes" was proposed, meaning no change in the nature of ownership, no change in subordination, and no change in channels for financial payments to the state. However, when lateral partnerships spread to entrepreneurial blocs, the principle of "three no changes" bound entrepreneurial blocs hand and foot, becoming an obstruction to the consolidation and development of entrepreneurial blocs.

China currently has three main kinds of entrepreneurial blocs: the cooperative type, the service type, and the regrouped type. The regrouped type entrepreneurial blocs represent the direction of development of entrepreneurial blocs. They touch upon the flow of production factors in being, and deep reform of markets. Their benefits far surpass the other two kinds of blocs. However, the overall situation in the development of entrepreneurial blocs today is one in which cooperative type and service type entrepreneurial blocs are extraordinarily common, while reorganized type entrepreneurial blocs are scarcer than hens' teeth. This is because reorganized-type entrepreneurial blocs require the abolition of member enterprises' independent positions under the law, and require regrouping of capital, work sites, techniques, equipment and personnel, instituting a new division of labor to promote a rapid expansion in the scale of production for the formation of new productivity. These requirements are completely contrary to the principle of "three no changes"; consequently, it is said that the "three no changes" principle poses a serious impediment to the flow and regrouping of production factors.

However, enterprise mergers have completely demolished the "three no changes." This is because enterprise mergers are characterized by the loss of the juridical person status of the enterprise being taken over, thereby fundamentally demolishing the existing subordination

relationships, channels for payments to the treasury, and ownership relationships. The enterprise that is being merged becomes an integral part (or branch plant) of the enterprise with which it is merged. Thus, the steady merger of inferior enterprises into superior enterprises brings about a flow and a regrouping of production factors, which promotes rapid expansion of the scale of production, thereby moving entrepreneurial blocs to a higher level.

E. The Role of Enterprise Mergers in Fostering Different Strata of Entrepreneurs

The position in economic activity of entrepreneurs as operators of enterprises has become increasingly important. The rise of entrepreneurs and the development of the market system are closely related. However, under the old system, both the flow of property rights and investment decisions were the monopoly of the government. No matter how well an enterprise might be run, it could only carry on within the limitations of its existing assets. This artificial determination of the relationship between enterprises and markets actually caused operators to become "bureaucrats" totaling lacking either the motivation or the style needed to operate. Despite the reforms of the past several years, which have invigorated enterprises somewhat and have conferred a certain amount of authority on operators; nevertheless, because property rights do not flow through markets, enterprises remain only able to rely on the government instead of relying on themselves to expand the scale of their operations. Thus, it is very difficult for them to train up an entrepreneurial corps consistent with a commodity economy. However, the advent of mergers has changed the environment for the growth and strengthening of the country's entrepreneurial corps, enabling a linking of entrepreneurs' impulse to expand and market risk for the opening of a promising road for fostering and expanding the entrepreneurial corps.

II. Analysis of Reasons for Mergers

In Wuhan City, motivations for enterprises mergers were manifested mostly in the following regards:

A. Gaining the needed means of production for enterprise survival and development at a relatively low transaction cost, the desire to gain land being most intense of all.

In an overwhelming majority of the merged enterprises we surveyed, the merger was for the purpose of gaining the other enterprise's land. For example, the takeover of several industrial plants by several general merchandise markets throughout the city was solely for the purpose of getting land for their use in increasing the area of operations, storage capacity, and other auxiliary facilities. The main incentives to do this were as follows: First, China is presently in a period of transition from a planned economy to a market economy in which enterprises cannot obtain the means of production from existing distribution channels, nor have well developed means of production markets been established as yet. Furthermore, prices of the means of production have

risen. Thus, in order to get the means of production they need to develop production, enterprises have no choice but to pay expensive transaction costs. In addition, operating risks are also extraordinarily great. Thus, some enterprises cast their eyes in the direction of mergers, internalizing transactions through mergers to attain the goals of lowering transaction costs and reducing risks. This so-called internalization of transactions means that once the merger has occurred, only administrative costs have to be paid in the allocation of directly controlled production factors. These administrative costs will generally be lower than transaction costs when the market mechanism is used. Second, because of the irrational system of land use without compensation prevailing in China today, most enterprises take this opportunity to acquire from the enterprise they take over a large land area at an extremely low price. Third is the lack of a scientific and rational assets evaluation method. Assets evaluations are markedly subjective and arbitrary; no market pricing procedures have been established. Enterprises to be taken over are anxious to find a way out when their livelihood is threatened; consequently, when enterprises are sold without feasibility validation, transactions take place that are not at exchange of equal value. This is also another important incentive.

B. Enterprises Quest For Maximized Long-Term Returns

As a form of investment, enterprise mergers entail relatively low costs, i.e., the investment costs paid to merge an enterprise are far lower than costs in forming a new enterprise. Mergers obviate a series of time consuming matters such as requisitioning land, capital construction, and the hiring of labor. Concentrated use of production factors enables rapid expansion of the scale of production, generates intensive cost effectiveness, increases an enterprise's operating entities, and consolidates an enterprise's dominant position. Second, mergers may serve as a method for expanding markets, increasing market share. Third, since changes in the prosperity and life cycle of different firms and different products differ, by diversifying their products through mergers, an enterprise can reduce risks, the enterprise thereby gaining a consistently satisfying profit. Fourth, the strengths of the enterprise taken over in the merger, particularly its intangible assets, may be used to demolish trade barriers in a rapid shift to become a new booming industry. Evidences of such a motivation have begun to appear today in fairly strong enterprises in Wuhan. One example is the Wuhan Municipal Towel Factory merger with the Seventh Knitting Factory, which stemmed from this motivation. Currently, the market outlook for towels is good, but competition is intense. Thanks to the merger, the towel plant set up a decorative products base, enabling the enterprise to advance from just towel production to broad production of decorative items, thereby attaining the goal of diversification of operations.

C. Strong enterprises attain the goal of supporting the weak and rescuing the financially troubled through mergers.

In order to improve their own name recognition and reputation, and to establish a fine enterprise image, some

fairly strong enterprises merge with failing enterprises whose social influence is great even though they derive no real benefit whatsoever, and despite difficulty in seeing any potential value in them. Insofar as they are able, they solve a series of social problems, creating a fine socioeconomic climate for the enterprise's development. Such a merger reflects, to a certain extent, a high sense of social responsibility and spiritual civilization on the part of socialist entrepreneurs. In China today, where no social labor insurance system exists as yet, this can reduce social shock and lighten the government's burden. However, too much concern for an enterprise's social returns, and relatively less consideration of the enterprise's economic returns is not consistent with the laws of a commodity economy. It can also abet dependent thinking on the part of losing enterprises. Enterprise mergers need not cure a multitude of illnesses, nor need the enterprise that is taking over the other in a merger become a philanthropic organization. Enterprise mergers and enterprise bankruptcies should exist at the same time in order to stimulate enterprises to improve their operations, and to spur the steady perfection of the social labor system.

From the above analysis of enterprises motivation for mergers, the following results may be derived:

1. In China today, it is the first of the foregoing three motivations that plays the dominant role, namely the use of mergers to acquire the means of production in order to remedy the imperfect development of means of production markets (particularly land markets). Individual enterprise can internalize transactions through mergers to achieve the goal of lowering transaction costs and reduce risks. Superficially, this appears to benefit enterprises; however, behind these "benefits" lie other hidden irrational factors. First of all, such a motivation impels enterprises to try to become "large and all inclusive," and "small and all inclusive," even though an important feature of modern large scale production is specialized cooperation. This may create reduced efficiency as a result. Second, under most circumstances, all that the party engineering the merger wants is some of the assets of the party being merged, yet the party engineering the merger must pay the party being merged for all the assets. This may create a new irrational situation in the allocation of social resources.

2. The returns obtained in the merger process from the second kind of motivation are markedly better than mergers having other motivations, and such mergers represent the direction of enterprise mergers. They are an effective means for promoting the rational flow of assets in being, and for optimizing the industrial structure, the enterprise structure, and the product structure. However, currently the number of enterprise mergers resulting from this kind of motivation is very small for various reasons. One is the rather low quality of enterprise leaders who lack a strategic view. A second is that until such time as property rights relationships are completely straightened out, enterprises will lack an intense motivation to merge. A third reason is that

associated reform of the capital, market, and labor service systems has not kept pace; enterprises lack the conditions for mergers.

A look at the country's actual current operating rules for mergers shows that they follow the principal of voluntariness. This means that the motivation for mergers is controlled by human will rather than the functioning of economic laws. Unless they see some benefit for themselves, the management of enterprises always intensely resists being merged. Their concern is not for efficiency in the operation of assets, but rather their own fame, fortune, and status. As a result, if an enterprise can manage somehow to maintain its livelihood through reliance on subsidies, strong enterprises will be unable to take them over. The consequences of this situation are that the country's overall interests are damaged, while at the same time the extent of feasibility and the role of mergers is limited.

From the foregoing several aspects of the matter, one can see that enterprise mergers in China today have yet to become regularized; consequently, the role of enterprise mergers cannot be played to the fullest, nor is the motivation for enterprise mergers strong. How can the motivation for enterprise mergers be stimulated to guide enterprise mergers to the right track? We believe conditions for enterprise mergers can be created in several regards: (a) establishment and perfection of an enterprise merger market that creates a climate of equal competition for enterprise mergers, thereby enabling a more effective allocation of resources; (b) making the most of the role of government in guiding, coordinating, and supervising enterprise mergers; (c) the phasing in of the stock share system, spelling out enterprises' property rights relationships, and commercializing property rights, making merger methods more flexible and more convenient.

III. On the Establishment and Fostering of Enterprise Merger Markets

With the advent of enterprise mergers, an enterprise merger market became an objective inevitability; because enterprise mergers per se are an outgrowth of a more solidly based market structure. The concept of commodities proceeds from products to means of production and workforces to enterprises (material assets) to property rights (shares), going from the shallow to the deep. This means that development of a commodity economy leads to enterprises themselves becoming commodities that can be put on the market. Since enterprise mergers are a kind of transaction in which enterprises are bought and sold, objectively an inevitable requirement is market conditions for commodity transactions, as is the case with other commodities.

The situation in Wuhan City today shows that the enterprise merger market performs the following main functions: It provides a place for enterprise merger transactions, creating a physical market link for contact between buyers and sellers, thereby lowering transaction

costs; it collects all sorts of information about enterprises initiating mergers and being taken over in mergers; organizes, surveys, and provides demonstrations; it builds economic files, and conducts feasibility analyses that provide support for the regularization and standardization of mergers; most importantly, it provides a climate of equal competition for enterprise mergers enabling assets to tend gradually toward exchange of equal value through market valuation.

However, results from the actual operation of enterprise merger markets have not been completely ideal for various reasons.

First, the Wuhan City enterprise merger market is an "officially administered" market organization. The working personnel in the enterprise merger market come from various government functional departments. They insist on setting personnel staffing and setting administrative grades for the merger market, thereby making them into government administered market organizations. At the same time, the enterprise initiating the merger fears, lest the departments in charge intervene, to create a merger only to have it separate causing losses for the enterprises. Therefore, they require an authoritative market organization, and, objectively, this creates unpleasant consequences as follows: First, because it is not profit making, the "officially administered" market organization can lower market efficiency. This shows up in market personnel just sitting around awaiting the arrival of enterprises at the door instead of actively seeking a suitable merger match for an enterprise. Second, the nonprofit-making nature of the market organization is not good for the formation of a body of "merger brokers." The role of "merger brokers" in enterprise mergers is crucial. Unless a body of brokers is fostered and developed, enterprise broker markets are unlikely to become truly vigorous.

Second is the inadequacy of assets evaluations, enterprise assets evaluations have not yet completely become a part of the market process. Since the turnover of enterprise property rights is not the movement of individual production factors, restrictive factors in the assets exchange price formation mechanism will be more complex than individual production factors. Not only is it necessary to take into consideration the value of tangible assets (equipment, manpower, capital), but it is also necessary to take into consideration the value of intangible assets (trademark prestige, managerial experience, and cooperative relationships). Not only is it necessary to consider current profit making capabilities, but also to consider future profit making capabilities (such as changes in product market supply and demand, rises and falls in profits on capital, and such factors). Not only is it necessary to take control over creditors rights, but also to assume debts, and so forth. Clearly, in the process of enterprise mergers, there is a greater requirement for comparative cost and benefit analysis—the price of assets depending on fairly complete capital market objective appraisal. In China today, however, capital markets have not matured; property rights exchange

prices are largely negotiated by various departments, specialists, and enterprises, or they are arrived at through the calling for tenders, auctions, and consultations.

Third, the administrative interference that exists in the old system, and the separation that exists between higher and lower, or different departments limits development of the enterprise merger market. Since the state is the sole owner of assets owned by the whole people, but does not possess civil action capabilities, it has to draw support from organs having concrete authority to act in order to participate in commodity production and commodity exchange. Consequently, in fact, each local jurisdiction and each department substitutes for the state as owners of state assets, and since assets ownership is an authority that carries control with it, all enterprises are seriously dependent on the departments and local jurisdictions that possess it. The movement of enterprise production factors means a change in the main body of property rights, which means a redistribution of profits and rights. This is completely contrary to administrative will. Consequently, departments in charge of enterprises always do all possible to oppose having enterprises under their control merged into an enterprise from outside the system, and they apply administrative methods, either taking disciplinary action against those in charge of the enterprise being merged by blaming them for transgressions or dismissing them, or by employing "mediation" to limit mergers to enterprises within the system. The consequences of so doing are that enterprises are unable to find ideal merger partners through merger markets, and it is difficult to bring into full play the role of enterprise merger markets in the optimum allocation of resources.

In this regard, we believe that further perfection of China's enterprise merger markets requires that the following actions be taken:

1) The spelling out of enterprise property rights relationships is a necessary prerequisite for the normal development of enterprise mergers. A multiplicity of property rights main bodies should form the basis for the development of diversified property rights transactions. In the exchange for fixed assets property rights, a separation of assets owner, economic regulator, and controller functions is necessary, first of all. In fact, real transfer of property rights for compensation requires that the enterprise turning over property holds independent property ownership rights to it. Fixed assets must be personally represented at two levels. At the first level is a fixed assets administration acting as the representative of the ultimate ownership authority for fixed assets. At the second level is the producing and operating enterprise that serves to represent corporate ownership rights. Only in this way can the movement of production rights be premised on clear-cut property rights ownership.

2) Enabling the enterprise merger market to behave as an enterprise under government guidance and supervision, i.e., to be a profit-making business unit. This both helps improve the efficiency of the market organization per se, and also helps foster a body of brokers.

3) Establishment of a regular enterprise files data bank, simultaneously organizing forces to provide more follow up and feedback on enterprises that have already merged for prompt understanding of the economic consequences of enterprise mergers to provide future guidance.

4) Over the longterm, financial market conditions and legal conditions should be strengthened, and property planning conditions created for the gradual perfection of macroeconomic control over the enterprise merger market.

IV. The Role of Government in Enterprise Mergers

A planned commodity economy requires that government exercise macroeconomic guidance and regulation over enterprise mergers. I believe that government should mostly play a coordinating, guiding, service, and supervisory role in enterprise mergers. Specifics are as follows:

1. *Macroeconomic control.* Government should do more to guide enterprise mergers in terms of the readjustment of the industrial structure and the enterprise structure, rather than solely in terms of changing losing enterprises into money-making enterprises. This is the only way to insure the integration of microeconomic benefits and macroeconomic benefits. Government should proceed from the long-term development prospects and trends of industries and firms to encourage or limit enterprise mergers, using enterprise mergers as an important means for regulating the industrial structure and the enterprise structure.

2. *Care and nurture.* Government should care for and nurture all enterprise mergers that are consistent with national and local government development strategies from which economic returns are fairly high, supplying such enterprises with raw and processed materials, apportioning funds, and distributing energy to them.

3. *Policy guidance.* Enterprise mergers have just begun. They are still finding their way and are urgently in need of correct government policy guidance. Wuhan City has promulgated documents including "Trial Views on the Promotion of Enterprise Mergers," which provides clear-cut regulations on problems such as enterprise merger principles, scope, procedures, forms, financial claims and indebtedness of enterprises being merged, placement and welfare benefits of staff members and workers, and enterprises' post-merger tax payments and material supply. This provides guidelines for enterprise mergers so that they do not sink into chaos.

4. *Removal of obstacles.* The way the Wuhan City government removed obstacles was as follows: It set up economic mechanism reform leadership teams, and provided that both parties to enterprise mergers, particularly the enterprise being merged into another, did not have to obtain approval for merger from higher authority. All that was required was a memorandum for the record to the department in charge, the merger being directly approved by the "mechanism reform leadership team." Thus, the government played a role in removing obstacles in enterprise mergers.

5. *Propaganda and education.* The government should do more in the propaganda field to demolish old ideas.

6. *Consulting services.* By way of insuring standardization, systemization, and regularization in enterprise mergers, avoiding rash action, Wuhan City set up an enterprise merger market, which used methods such as signboards to publicize market information. They also provided consulting services, and conducted assets inventories and audits, which they had notarized.

V. The Role of the Stock Share System in Enterprise Mergers

We found from an overview of the history of foreign enterprise mergers that enterprise mergers and the stock share system have operated in parallel without conflict. This has resulted from the special functioning of the stock share system in providing irreplaceably ideal conditions for the effective merger of enterprises. In addition, numerous key problems that Chinese enterprise mergers face such as property rights relationships problems, administrative interference problems, assets evaluation problems, and property rights commercialization problems can also be satisfactorily solved through promotion of a stock share system. Therefore, we believe that, over the long run, promotion of a stock share system will play a very great role in giving impetus to Chinese enterprise mergers.

Future of Price Reform

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[Article by Hong Yinxing (3163 6892 5281) of the Department of Economics, Nanjing University, written in July 1989: "The Risk and Way Out for Price Reform"]

[Text] I. Dual Price System: Obstacle to Structural Improvement

Unlike 10 years ago, the starting point of price reform at the present stage is no longer the traditional price management system and pricing structure. It is the dual price system and the pricing structure born from it, both being products of a decade of reform. Their characteristic is that the prices of different types of commodities are set according to both the planned economy track and the market economy track, while those of the same types of commodities are also set according to the two tracks at a certain ratio. Such a pricing structure operates under both the planned track and the market track. It is neither a purely planned pricing structure nor a purely market one. It is rather a hybrid of both. A careful analysis of the price ratio in the dual pricing structure shows that the existing pricing structure is still a twisted one. First, prices of uncontrolled commodities are conspicuously high and those of controlled commodities are conspicuously low. The extreme price differential between the two does not reflect their value differential. Second, the differential between the planned track and the market

track prices of the same commodity (mainly planned basic products in short supply) has conspicuously widened. For example, the difference between contract purchasing price and market price of grain and that between state prices and market prices of steel, crude oil and coal is more than 100 percent. Such extremes in dual price differential have further twisted the pricing structure. Even market price cannot reflect the true value of commodities, for it incorporates a considerable degree of monopoly factor and profits obtained by profiteers.

Under the dual-track system, each producer (enterprise) has price relations with both planned price and market price. These fall into five combinations: (1) the planned price and market price of the products of an enterprise; (2) the planned price of the output and market price of the input in an enterprise; (3) the market price of the output and planned price of the input in an enterprise; (4) the planned price of both output and input in an enterprise; and (5) the market price of both output and input in an enterprise. In this way a producer's scope of comparative benefits is further expanded. The higher the proportion of planned price in the sales of products, the lower the profit, and vice versa. Similarly, the higher the proportion of planned price in production costs, the higher the profit, and vice versa.

Generally speaking, in basic industries costs increase proportionately with amount of production and in manufacturing industries the opposite happens. Imposing a price control on products of basic industries will result in a slower rise in product price than production costs. On the contrary, if there is a great demand for manufactured products, lifting the price control on them will result in a faster rise of product price than production costs. At present, prices of products of basic industries are mainly controlled and those of products of manufacturing industries are mainly uncontrolled. Therefore, the basic industries which are already underdeveloped are even less developed, whereas the manufacturing industries which are already overdeveloped are even more developed.

Although the striking growth of manufacturing industries has contributed to high economic growth rates, the supply to the entire society will ultimately be restrained by an inadequate supply of basic products. After the introduction of the dual price system in China, we have suffered a loss of overall control several times. They are all characterized by excessive consumption demand and caused by structural imbalance. Each time the striking growth rate of manufacturing industries and economic growth rate stimulate each other, resulting in a great demand for basic industries. Then a severely inadequate supply of basic products leads ultimately to a grave imbalance in overall supply. In the present effort to improve and rectify the economy, the underdeveloped industries, which should be encouraged, fail to develop further; whereas the overdeveloped industries, which should be curbed, continue to develop. The obstacle to structural adjustment and improvement also lies in the dual price system. Therefore, the dual price system,

characterized by controlled prices for basic products and uncontrolled prices for manufactured products, resembles the controlled single price system of the past characterized by low prices for basic products and high prices for manufactured products in that they both twist the pricing structure and the economic structure.

II. Reemergence of Price Ratio: An Indicator of Failure in Price Reform

Price reform involves two aspects. First, it aims at reforming the pricing structure so that the latter will reflect the value ratio and the relationship between supply and demand. Second, it aims at reforming the price-setting system, so that price-setting by the state will change to that by the market. These two aspects are closely related to one another. Whether the pricing structure can be rationalized depends ultimately on whether price-setting by the state can change to that by the market.

In the last decade, China has introduced many reform measures to rationalize price relations. The price reform at present is very likely to commit the error of the bringing back price ratio at the overall, medium and specific levels. This is a major risk in price reform. The return of the price ratio signals the failure of price reform.

1. Error at the specific level. There are two important factors in the market price-setting system. One is an enterprise's right to set the prices. Another is fair and adequate market competition. Only the price determined by both factors combined is market price. In other words, price that reflects the demand of the law of value must have the participation of the enterprise but not just subjectively determined by it. In the reform of the pricing system in China at present, only the right to set prices has been released, fair and adequate market competition has not materialized. Therefore, enterprises cannot possibly set prices in accordance with market regulations and uncontrolled prices cannot possibly become true market prices. There is still much disparity between price and value. This is the error of the reemergence of price ratio at the specific level.

The way out for this error is the creation of a market environment that permits adequate competition. Although a market that permits full competition cannot exist in modern commodity economy, we still can set it as a goal in the formation of a market. The closer the market environment is to this goal, the closer is price to value. At the present stage we reform the economic system in this approach and eliminate the monopoly arising from structural factors. On the one hand, we must eliminate ownership by departments and ownership by localities and abolish all forms of monopoly by localities and departments so as to form an open and unified market. On the other hand, we should eliminate the monopoly caused by a highly centralized economic management system and introduce competition between

different enterprises within the same production department and that between different production departments, so as to treat economic sectors under all kinds of ownership and all enterprises as the same in both policy and market and end the monopoly of certain types of enterprises. In particular, all kinds of enterprises should be given equal rights to set prices.

2. Error at the medium level. The price adjustment of each commodity aims at a balance between supply and demand so as to attain partial equilibrium. However, in modern commodity economy, the partial equilibrium of any one kind of commodity depends on the general equilibrium of all kinds of commodities. In other words, the relationship between supply and demand of any single kind of commodity is determined not only by its own value, but also the prices of other commodities (mainly substitute commodities and supplementary commodities). Under the present dual-track system, the commodity markets are fragmented. Prices of some commodities are set according to the planned track and those of others according to the market track. There is no organic market link between the two groups. If price reform continues to adopt the dual track approach, with some prices uncontrolled and others adjusted, price adjustment will not achieve partial equilibrium. This kind of market fragmentation leads price reform to the error of the reemergence of price ratio at the medium level.

The way out for the error of the reemergence of price ratio at the medium level is to form all kinds of commodity markets at the same pace and create conditions of general equilibrium in the price-setting system. This means that the price control of all kinds of commodities should be lifted at the same pace. At present the degree of opening up prices of commodities varies. Therefore, reform measures in the short term should address different needs. Commodity prices that are no longer controlled should be stabilized and those that are still rigidly controlled should be opened up. Recently the scope of nonplanned track prices of basic products, such as agricultural products, coal, and steel, has expanded. To solve this problem we must not just introduce simplistic administrative control. Rather, we should take advantage of the situation and channel it to the rationalization of the pricing structure. For certain commodities whose price control cannot be lifted for the time being due to various reasons, the state should adopt a mock market mechanism to adjust their prices in time so as to achieve general equilibrium.

3. Error at the overall level. The main problem in the existing pricing structure is that prices of raw materials put into production are too low and those of manufactured goods are too high. To reform the pricing structure, prices of raw materials should be raised and those of manufactured industrial products should be stabilized. If price reform is carried out in the heated pursuit for high economic growth rates or in inflation, it will fall into the error of reemergence of price ratio at the overall level. When the economy is too heated and demand is great,

prices of manufactured goods will rise with those of raw materials that are put into production so that both the input and output prices are high. In this way the pattern of low-priced raw materials and high-priced manufactured goods will repeat at a higher level. Once price reform falls into error at the overall level, even if the state employs administrative measures to forbid prices of manufactured goods to rise, enterprises will raise the prices in modified or hidden ways, such as not supplying the goods or under the table transactions.

The way out for the error of reemergence of price ratio is the creation of a more lenient and relaxed overall environment. Therefore, price reform and control of the total demand must proceed at the same time. In addition, price reform should be based on effective control of the total demand. Some people believe that when price has been reformed, the increase in total supply will absorb the expanded total demand. Practice has proved that this view is unrealistic. The increase in total supply often lags behind price reform. Price reform conducted in the absence of a curb on total demand will give rise to the reemergence of price ratio before the total supply is increased. Therefore, controlling the speed of economic growth, investment demand and consumption demand should precede price reform. This is also an overall measure to create a buyer's market. The reemergence of price ratio can be avoided only when supply suitably exceeds demand in the buyer's market.

In short, the reemergence of price ratio is caused by certain factors at the overall, medium, and specific levels. The answer to this problem lies not in stopping price reform, nor in strengthening administrative control over prices or continuing the dual price system. It lies in improving the environments upon which price reform depends and choosing the right time for price reform.

III. The Inflation 'Syndrome': 'Bermuda Triangle' in Price Reform

Price reform has sunken into the Bermuda Triangle of inflation. This is another major risk of price reform.

Economists in Hungary give the name Bermuda Triangle to the vicious cycle of raising the prices of basic products—increasing subsidies—increasing taxes. A Bermuda Triangle has also appeared in the Chinese price reform in recent years. After raising the prices of agricultural products and basic products, the state increases the subsidies, which take the form of direct subsidies to the consumer and tax reduction on manufacturing enterprises. The high subsidies come from the state finances and bank credits. Therefore, excessive issue of bank notes is inevitable. The Bermuda Triangle of the Chinese price reform is the vicious cycle of lifting price control—increasing subsidies—increasing issue of bank notes. The price spiral goes up with this cycle.

Price reform in the form of adjustment of the pricing structure in itself should not lead to inflation. However,

price reform in the context of excessive total consumption is related to inflation. Inflation takes place in the following four aspects.

First, friction arises from the change of the price-setting system. In the past, the state controlled the prices, which remained unchanged or only slightly changed in several decades. In the course of changing from price-setting by the state to that by the market, friction arises on both sides. On one hand, when the prices are controlled by the state, people are used to hidden inflation in the forms of unavailable goods, rationing of goods and black market transactions. After the control has been lifted, inflation has taken other forms, such as open price hikes. Because of price reform, people expect inflation and the phenomena of widespread panic exchange, panic buying and cornering of goods have further stimulated the price hike and increase of bank note issue. On the other hand, when inflation is hidden, the depreciation of monetary income is also hidden. When the price index remains the same, people would not ask for wage compensation. When price control is lifted, inflation becomes open and so does depreciation of monetary income. The wage compensation that follows is a factor leading to inflation.

Second, friction arises from the adjustment of the pricing structure. The adjustment involves mainly raising the prices of basic products such as agricultural products, energy, raw materials, and transport services. Since these products make up a large proportion of the total sales in society, raising their prices will have a significant impact on the price level of all goods. In spite of the disappearance of some buying power after the price rise of these products, the increased issue of bank notes has a stronger impact than the disappearance of some buying power. For example, raising the prices of agricultural products will lead to a larger loan to purchase agricultural products. On the other hand, it will also lead to an increase in wage costs of enterprises, which in turn will lead to more loans by enterprises to be used as circulating funds. In addition, raising the prices of raw materials will lead to an increase in costs, and in turn an increase in loans for use as circulating funds. Raising the prices of basic products will lead to chain effects on prices of other commodities. The loans will increase and inflation will get worse.

Third, there is friction arising from price rise and subsidies. To reduce obstacles to price reform, the state pays subsidies to the people and production enterprises in the course of price reform. In this way it pays a price—expanded total demand. For example, when the price control on agricultural products and by-products was lifted and the prices were raised, the state had to issue subsidies to workers and employees of offices and institutions and enterprises had to do the same to their workers and employees. When the prices of basic products were raised, the state had to subsidize manufacturing departments in the form of tax reduction. Once subsidy is introduced it cannot stop. Once an enterprise enjoys state subsidies, it will become dependent on the state and bargain with it. This leads to enterprise

demand for subsidies which knows no limit. Within enterprises, the demand of workers and employees for subsidies knows no limit either. These two demands have to be met ultimately by state finances and bank loans.

Actually, the adjustment of the pricing structure is an adjustment of the profit margin of the departments. In other words, it is a redistribution of the total profits in society among the departments. Similarly, the subsidies issued by the state is an adjustment of the subsidy structure on the basis of structural adjustment of financial revenue. It does not necessarily cause inflation. The problem is, when the profit structure is so rigid, adjustment of pricing structure cannot accompany structural adjustment of financial revenue. Enterprises that benefit from the price adjustment may report a lower profit margin, and those that do not benefit from it may exaggerate the resulting increase in costs. If price ratio reemerges, all enterprises will ask for subsidies. Now that the central government's financial revenue has dropped relatively, the state finances are unable to bear heavy subsidies. This will inevitably lead to financial deficits, and subsidies for enterprises and prices will take turns to go up.

The subsidies issued to workers and employees to withstand rise in prices of agricultural products and by-products are actually 'open subsidies,' as distinguished from the 'hidden subsidies' before. This change will lead to inflation. When hidden subsidies are in force, we know which products are subsidized and the consumer benefits only when he buys these products. When hidden subsidies become open, there is no specification as to which products are subsidized. The consumer can use the subsidies to buy nonsubsidized commodities. Therefore, these commodities take advantage of the situation and their prices go up as well. When the range of nonsubsidized commodities is larger than that of subsidized commodities, the subsidies become inadequate and consumers will demand more. Even if they have to sacrifice their accumulation, enterprises try to protect the interests of their workers and employees by satisfying their demand. Wages include subsidies, and they rise faster than prices. Meanwhile, the proportion of price subsidies in financial revenue is climbing faster than ever. Given this situation, if subsidy is not effectively controlled, the alternate subsidy (wage) hike and price hike cannot be checked.

Lastly, friction arises from the adjustment of the pricing structure and the rigid industrial structure. In general, basic industries are constrained by resources. They require good technology. They need capital and labor power on a large scale. They have long investment cycles. Therefore, their supply is not flexible to price reform and they cannot increase supply immediately after a price hike on their products. On the other hand, the demand of basic products is also inflexible to price reform. The price hike on basic products like energy and raw materials will caution related departments to cut down consumption of basic products and use substitutes. However, due to the following reasons the demand for basic

products cannot possibly decline despite a price hike: (1) Basic products have specific uses and can hardly be substituted. (2) Manufacturing industries are an important employment base for our labor force at present—in the immediate future we cannot drastically contract them and risk large-scale unemployment. (3) Compared with basic products, the price control on manufactured products was lifted earlier and to a larger extent, resulting in the fast expansion of manufacturing industries and, in addition, were stimulated by high economic growth rates. Therefore, they grew at a super speed regardless of the constraint from basic industries. Clearly, when demand and supply in basic industries are both inflexible to prices, to lift the control on the prices of basic products will inevitably lead to striking price hikes, to the extent of exceeding the absorption capacity of manufacturing industries. As a result, prices of manufactured products will go up also.

In short, the context of the Bermuda Triangle in price reform is the existence of inflation, and the immediate causes are various kinds of friction arising from the course of price reform. The friction will trigger off demand-pull inflation, cost-push inflation, and structural inflation, and form an inflation syndrome.

IV. How Can Price Reform Get Out of Its Dire Straits?

Price reform faces a dilemma in the Bermuda Triangle. Two problems have to be resolved if price reform is to get rid of the Bermuda Triangle. First, it should avoid the broad context of inflation. Second, the right channels must be selected for price reform. Third, subsidies must be under control.

Regarding reform channels, there has been debate on whether prices should be set by the state or the market. A consensus has been reached: prices determined by the market are more accurate and timely than those by the state. However, when we encounter risks in price reform, many people maintain that gradual price adjustment by the state is less violent and less risky than market determination of price. Actually this view is problematic. State adjustment of prices must be accompanied by state issue of price subsidies. To adopt state adjustment of prices in price reform means in effect to impose the risks of price reform on the state alone. If adjustment proceeds on a gradual basis, the state has to provide subsidies each time adjustment occurs. As long as adjustment is not over, there is no end to subsidies. This measure cannot suppress inflation. It will rather push price reform into the Bermuda Triangle.

If price reform chooses the measure of lifting price control, reform risks will be spread out and there will be less pressure on the state to subsidize. ¹ True, when price control is lifted, the state may have to issue a large subsidy and inflation may be severe, but this subsidy is once and for all. After the lift, should fluctuation come up again, the state will not have to bear most of the risk. Both the production enterprises and the consumer will have to share it. In this way the alternate rise of subsidies

and prices can be checked to a certain extent. According to Professor Dai Yuanchen, if the dual price system of production materials is converted to the single price system, the total price will go up by 50-70 percent. Wage costs make up about 10 percent of product prices. If full wage compensation is issued to workers and employees, the price will go up by another 5-7 percent. Even if the workers and employees are compensated again at the second round, its effect on prices will be less than 1 percent and it can be absorbed by the enterprise altogether.² Therefore, when price control is lifted, the impact on subsidy and inflation will decline. Clearly, when compared with gradual state price adjustment, lifting price control costs more once and for all and is more risky once and for all, but it is less costly in the long run and has a weaker long-term impact on inflation. Of course, if lifting price control is chosen as a reform measure, it has two restrictions. First, the lifting of price control must not take place at a time of serious inflation. Second, lifting price control once and for all applies to a category of commodity at a time. At present we cannot lift the price control on all commodities at the same time. One category of commodities after another should be involved. However, for the category affected at a specific time, the price adjustment must be once and for all, otherwise the Bermuda Triangle of alternate rise of subsidies and prices cannot be avoided.

The second measure to avoid the Bermuda Triangle is to control subsidies. Subsidies will boost social demand. When total demand exceeds total supply, more subsidies are requested, and there will shorter supply and more pressure from inflation. Subsidies can be controlled in the following four aspects:

1. *Narrow the scope of subsidies.* Price subsidies actually include subsidies for inflation and price reform respectively. Inflation is not caused by the government alone. Therefore, the risk of inflation should be spread out. The state should not bear it alone. The state should pay an inflation subsidy to two groups only: First, workers and employees of state offices and institutions that are funded by state finances; second, the low-income group and the group whose actual income drops drastically. The wage compensation for workers and employees of enterprises should be the responsibility of enterprises. The state should not reduce enterprise taxes because of inflation. This means that inflation should be disconnected from subsidies on enterprises and workers and employees. After getting rid of the burden of inflation subsidy, the state should shoulder price reform subsidy. It should use it to regulate the process of price reform and reduce the obstacle to price reform.

2. *Adjust the structure of revenues and expenditures.* State subsidy comes from state finances. After the adjustment of the pricing structure, the profit margin of all departments will face structural adjustment as well. If, in the price adjustment, profit-making departments and enterprises continue to enjoy the original subsidies and departments and enterprises that have not made a profit or have suffered loss enjoy new subsidies, subsidies will

expand without end. Therefore, it is necessary to adjust the structure of revenues and expenditures in accordance with the structural adjustment of pricing structure, gradually reduce, and even cancel the subsidies for profit-making departments and enterprises, so as to curb the endless expansion of subsidies.

3. *Change the object of subsidies.* Price reform subsidies mainly benefit consumers of commodities affected by price change. When the prices of agricultural products and by-products are raised and no longer under control, the residents are issued price subsidies. When those of basic products are raised, departments that manufacture basic products for consumption enjoy a tax reduction. This kind of price subsidy boosts demand for and consumption of commodities whose prices have been raised. It also starts off the alternate rise of subsidies and prices. To break this vicious cycle, we must change this demand-type subsidy to supply-type subsidy and change from subsidizing the consumer to subsidizing the producer. In other words, we should spend the subsidy on investing agricultural and basic industries departments and create a suitable external economic environment for them. We should also lower the costs, increase the supply, and stabilize prices so as to avoid price hike caused by price subsidy.

4. *Adjust and control welfare subsidies.* Existing welfare subsidies include housing, health, and public transport subsidies. They are in the form of low-cost consumption and have created two kinds of pressure. On the one hand, there is pressure on the supply of subsidized commodities. Welfare subsidies encourage consumption by means of low-cost consumer goods. Only when one consumes these commodities can one enjoy the welfare. The more one consumes, the more welfare he enjoys. Therefore there is always a great demand, even to the point of waste. This has caused, to a large extent, a severe shortage of housing, public transport, and health services. On the other hand, welfare subsidies have also created pressure in the form of inflation. Since the residents are subsidized in housing, transport, and health services, they spend their monetary income mainly on food, clothing, and purchases of articles for use. When income distribution was centralized and wages were low, this phenomenon was bearable. Now there is more flexibility in certain aspects and in income distribution, and the phenomenon of low wages is changing. When the expanding consumption fund is not spent on housing, transport, and medical services, it will exert a great pressure on food, clothing, and other purchases. Moreover, to meet the demand stimulated by welfare subsidies for housing, transport and medical services, the state has to put more resources into these areas, which in turn further accentuates the tension between supply of and demand for food, clothing, and articles for use. In particular, the commodities that enjoy welfare subsidies are necessities. When the spending on them makes up an excessively low proportion of the people's monetary expenditures, consumption demand for food, clothing, and articles for use will enter a high consumption phase

too soon. In this way, welfare subsidies accentuate the structural tension between market supply and demand, which is in turn a structural cause of inflation. This kind of inflation, along with inflation caused by price subsidy, function together. Therefore, controlling and reducing welfare subsidies is an important measure to channel price reform away from the pitfalls of inflation. To do so, housing and medical service reforms are called for. This means that price reform must be integrated with the reform of housing and public medical services and the adjustment of the welfare policy.

Lastly, there should be better use of subsidies. The fundamental element to free price reform from the Bermuda Triangle is the efficient distribution and use of subsidies. The base of better use of subsidies is effective operation of the market mechanism. Therefore, price reform must take place in conjunction with enterprise reform. The first function is to set firmer restrictions on enterprise budgets and not to be too lenient and accommodating to enterprises. When price control is lifted, the state should issue subsidies once only. It should not issue unlimited subsidies to them. In particular, price subsidy should not be viewed as subsidy for enterprises' losses. Only in this way will enterprises give up relying on price subsidies. They will instead deal with price fluctuations by improving their management quality, economizing on capital, and cutting down on costs, and so on. Next, we should shatter the pattern of everybody eating from the same big pot in the issue of subsidies. At present, everyone working in advanced enterprises and backward enterprises alike are entitled to subsidies, and backward enterprises that receive large amounts of subsidies cannot increase their supply. Now we should create effective mechanisms to make backward enterprises bankrupt and encourage advanced enterprises to merge backward enterprises so as to ensure that subsidies mainly go to economically efficient, advanced enterprises. Only in this way can subsidies be used more efficiently and can the alternate rise of subsidies and prices be avoided. It is the same for wage compensation for employees and workers. After setting and guaranteeing the minimum wages, the amount of compensation employees and workers obtain from an enterprise must link to its economic results, and it should be determined on the basis of the enterprise's economic performance. In this way, demand boosted by subsidies will be countervailed by the benefits of subsidies (increased supply) and inflation can be avoided.

In short, price reform is a component of economic reform and its risks are also risks affecting the entire economic reform. To avoid the risks of price reform there must be an orderly transformation of the entire mechanism of economic operation. Only when pricing becomes a mechanism and operates in accordance with enterprise management mechanism, market formation, and indirect overall regulation and control mechanism can the friction and risks of price reform be reduced to a minimum.

Footnotes:

1. Klaus Gelimu (5514 4409 1970) of the Federal Republic of Germany pointed out that the choice between lifting price

control and price-setting by the state is actually a choice between when and to what extent each ultimate consumer bears commodity and service costs, and the state, out of social consideration, paying for these costs with revenue from taxation and other revenues. In the latter the Chinese financial deficits will continue. (See *Zhongguo*: Fazhan Yu Gaige, No 2, 1989.)

2. JINGJI YANJIU, No 12, 1988

Economic Results of Materials Circulation

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[Article by Qin Yi (4440 3015), Yang Shangxiang (2799 1424 1927) and Yu Suwen (0151 2448 2429) edited by Lu Xiaosheng (4151 1420 2932): "The Question of Economic Results of Circulation of Materials"—Excerpts from a research report on the state's major problems of the "Seventh 5-Year Plan" prepared by Comrade Wang Haibo (3076 3189 3134) of the Industrial and Economic Research Institute of the Academy of Social Sciences of China]

[Excerpts] The good or poor economic results of the circulation of materials as a stage in the social reproduction process and an economic activity with its own special characteristics are not only related to its own development but also exert great and important effects on all socioeconomic development. The purpose of studying the economic effects of the circulation of materials is to discover the road and measures to improve the economic results of the circulation of materials.

I. Special Characteristics of the Economic Results of the Circulation of Materials

(1) *The "quality" of the economic results of the circulation of materials.*

Economic results generally refers to a sort of proportionate relationship, that is, a comparison between input and output in certain economic activities. In circulating economic activities, although the input is the same as in production departments, the output or product is principally manifested in a kind of effect: the realization of the value of the products. In quantity this is manifested in the amount or volume of incoming or outgoing products, and in quality, completion of the incoming or outgoing products should meet the needs of the consumers, that is, the supply should be on time, products should conform with specifications on quality and quantity; and the normal procedure and progress of production and consumption should be ensured. Concurrently with providing society with this effect, the circulating enterprise obtains operation receipts and corresponding profits. That is to say, the economic results of the circulation of materials has two layers: one is that of society, that is, the macroeconomic layer; and the other is that of the department or enterprise, that is, the microeconomic layer. Seen from the macroeconomic layer, the economic results of the circulation of materials

should ensure that social labor expended in materials circulation in the normal operation of a social economy of a fixed scale and structure should exhibit the effect of the less the amount expended, the higher the economic effects; and seen from the microeconomic layer, the economic results of the circulation of materials are directly manifested in that the completed volume of materials circulation that conforms with the requirement in quality and quantity is comparable with the input, that is, volume of labor consumed or used. The larger the volume of materials circulation completed or the higher the profits obtained by a unit, the better the economic results.

(2) The "span" or extent of the economic results of the circulation of materials.

Seen from the economic results of the circulation of materials, for the material circulation enterprises, in their capacity as relatively independent operators in commodities, should seek the maximum profits conforms with the law of economic development. However, the circulation of materials being the immediate stage between production and consumption, the objective formation of many restraining conditions on the economic results of the circulation stage brings up the problem of "span" or extent.

1. The characteristics of unanimity and of contradiction between the economic results of circulation of materials and the economic results of production.

The circulation of materials on the one hand provides production with suitable means of production and on the other hand provides the production of the means of production with the services of sales and marketing. Seen from the supply side, whether or not the supply is on time; whether it is suitable and convenient; the length of time required for purchases; and the high or low expenditures involved determine to a definite degree the production scale and the turnover speed of funds and further affect the amount of funds incurred and the cost of production. Seen from the marketing side, under the precondition of the sales prices having been fixed, the high or low cost of marketing will either increase or decrease the profits of the enterprise. Under the conditions of the sales prices not suffering from any restrictions, although the producer may incorporate the marketing cost into the sales price, raising the price will weaken the product's competitive power in the market, reduce the sales volume, and similarly reduce the gross volume of profits and proceed to affect the economic results of the producers. Therefore, the demands of production enterprises on the services provided by the materials circulation enterprises are: high speed, good quality, and low expense. On this point, the economic results of production and the economic results of the circulation of materials are unanimous.

Seen from the national economy as a whole, materials circulation is the intermediate stage of the production process. Under the conditions of society's gross input, the

labor productivity rate and the economic structure being fixed and constant, with the society's gross output maintaining a fixed level, that is, the gross volume $C + V + M$ remaining unchanged, the total of the value of the surplus product provided to society by production and circulation is M . Here, the portion occupied by each shows a reverse relationship. The output of a fixed quantity of products, on a fixed price level, determines the amount of profits. If the profits obtained by the producers are high, then the profits earned by the circulation sector will be low. Conversely, the profits earned by the producers will be low. Speaking on this count, the economic results of the circulation of materials and the economic results of the production activities are contradictory.

The characteristics of unanimity and of contradiction between the economic results of the circulation of materials and macroeconomic results.

As a kind of industry or trade in the national economy, the production of the circulation of materials constitutes a portion of the gross output value of society and of the national income. In this context, there is unanimity in the economic results of the circulation of materials and the macroeconomic results. However, this unanimity exists only within fixed limites. When the "limits" are exceeded, the reverse conditions will appear. The causes may be analyzed from two sides: On the one hand, the cause arises from the different conditions in the supply and demand of the means of production. When the demand for the means of production is too large or their supply is not sufficient, the market manifestations are: supply lagging behind demand, a shortage of commodities, a rise in prices, an increase in profits in the circulation sector, increases in the profits of circulation enterprises or industry or trade, and an improvement in economic results. But the economic results obtained from this are caused by the price factor and do not reflect an increase in the circulation volume or an improvement in the quality. On the contrary, the advantageous position of the sellers due to shortages frequently leads to a decline in the quality of work of the circulation enterprises and causes damage to the economic results of the consumption departments. The social output value formed by the high profits of the circulation enterprises only manifests an increase in the value volume, not an actual increase in the material wealth of society. It forms a "fallacious financial receipt." At the same time, the production enterprises will incur losses and, seen from the gross volume, the macroeconomic results can hardly be raised. On the other hand, due to the large-scale increase in the profits of the circulation sector, a large quantity of social labor is diverted into the circulation sector and the circulation scale goes out of control, is larger than the demand from production, and causes a new irrational structure in the national economy. This similarly damages macroeconomic results. Under these two kinds of conditions, the economic results of circulation and the macroeconomic results contradict each other.

It can be seen from this that improving the economic results of the circulation of materials cannot be determined by the materials enterprises enforcing the principle of the maximization of profits, but consideration

must be given to the reciprocal relations between the economic results of production and the macroeconomic results. By doing this, there will be a rational "span," that is, the best kind of spanning.

II. Present Conditions of the Economic Results of the Circulation of Materials

Before the 3d Plenary Session of the 11th CPC Central Committee, what our country carried out was a pattern of product economy; means of production was not recognized as commodity, and the existence of circulation, which accompanied commodity, was also not recognized. Under such a form of management, the materials department became subordinate to the supply and protection structure of the production department. Its highest target and sole target was to protect the needs of production. As for what form of protection to adopt, whether or not the protection was real, and how large the cost of protection, seldom were any economic principles taken into consideration. Hence, outside of the planned target and the upper-level tasks for certain political targets, there was no concept of economic results.

After the 3d Plenary Session of the 11th CPC Central Committee, our country began to carry out the reform of the economic structure. This type of reform had as its main form the opening up of circulation, structuring of the market, and introduction of the market mechanism. As a result, a reform of the materials structure was pushed, and the Materials Circulation Department also began to pay attention to economic results. In recent years, the economic results of the Materials Circulation Department actually attained a definite degree of improvement.

(1) Seen macroeconomically, the Materials Circulation Department has achieved good economic results.

1. The materials circulation department has played an active role in ensuring and supporting the development of industrial and agricultural production. Due to the imbalance in the supply and demand of the means of production and the reduction in the planned distribution targets of the state, in certain localities and enterprises, the source of supply of materials lacked protection and large gaps appeared. Certain state enterprises of the large- and medium-sized types have faced particularly serious difficulties in production. Under such conditions, the materials department made use of their strong points of having wide connections and knowledge of business affairs by establishing various kinds of lateral economic contacts with industries, materials production units, commerce, and transportation units; organized outside-the-plan materials; and helped the production departments to solve the problems of materials and transportation. According to statistics, in 1986, the value of materials handled through these types of connections amounted to 26 billion yuan. At the same time, through various kinds of negotiation meetings, social gatherings, and materials adjustment meetings, liaison bridges were built for the enterprises to fill their production needs.

2. Ensuring meeting the needs of the state's major construction projects. Between 1980 and 1987, the number of the varieties of products subjected to the state's unified allocation was reduced from 256 to 27. The ratio of the volume of allocation out of the gross output volume has been on the downturn, and mandatory planning has been reduced. All this has affected, to varying degrees, the state's major construction. The materials department has signed agreements with the production and construction units to organize the coordinated supply of various kinds of production and construction materials and equipment. During the five years from 1983 to 1987, for the 94 major construction projects under the state plan, it contracted the coordinated supply of 3.385 million tons of steel materials, 10.438 million tons of cement, 17.21 million cubic meters of timber and, in addition, such other materials as pig iron, plate glass, steel plates and so forth, thus effectively promoting the development of the national economy.

3. The department has played a definite and active role in stabilizing circulation and in such aspects as promoting the development of a market for means of production. Following the reduction in mandatory planning, the scope of regulation by market mechanism has continuously expanded. As a result of the universal shortage of means of production, violent fluctuations frequently occurred in the market. In order to reduce the production enterprises' blind operations, reduce the too great fluctuations in the market, and increase the transparent character of the market, the materials department, by means of such activities as the buying and selling of materials, importing and exporting materials, and so forth, stabilized the market and the market prices. At the same time, it actively took part in the market's operations and activities, guided the market's progress, and pushed the development and culture of the market for means of production.

(2) Seen From the Materials Circulation Department, Its Economic Results Are Continuously Improving.

According to statistics, in recent years the gross volume of profits realized by the materials circulation enterprises has been continuously rising. In 1987, compared with 1981, the total volume of profits increased by 195.3 percent, averaging an annual increase of 19.8 percent. The gross volume of profit taxes increased by 171.4 percent between 1981 and 1987, averaging an annual increase of 18.1 percent. Since the increase in the absolute amount of the gross volume of profits cannot fully reflect the true state of the increase in effects, it is necessary to analyze the changes in the profit rate. Seen from the changes in the profit rate of the materials circulation departments from 1981 to 1987, the profit rate on capital funds showed a trend of gradually increasing year by year and, moreover, the scale of the increase was fairly large, that is, an increase from 5.8 percent in 1981 to 9.8 percent in 1987, a rise of 69 percent and averaging an annual increase of 9.1 percent. However, the profit rate on sales income showed a downward trend, from 3.2 percent in 1981 to 2.8 percent in 1987, a drop of 12.5 percent. Generally speaking, the

two should change in the same direction but in this case, the two showed changes in the opposite direction. We must make a concrete analysis of this.

1. Expense rate and profit rate on sales income.

Changes in the profit rate on sales income reflect the opposite changes between profit and cost of production—a drop in profit rate implies that in gross income, the relative weight of profit drops, and circulation expenses rise. However, in recent years, the rate of circulation expenses has been dropping continuously, that is, dropping from 13.3 percent in 1981 to 10.1 percent in 1987, a drop of 24.1 percent and averaging an annual fall of 3.7 percent. This is just the opposite of the condition reflected in the profit rate.

Let us look first at the changes in circulation expenses. Aside from the drop in depreciation allowance, salary, and wage payments, management expenses in purchasing of goods causing the drop in circulation expenses, the main factor is the speedy increase in the sales income leading to the drop in circulation expenses. First, the degree of separation between commercial flow and goods flow is increasing daily. In sales volume, the expenses of goods flow has fallen. In the past, transactions largely accompanied the transfer of materials and goods in kind. But at present, the activities of commercial flow are extremely brisk, goods flow can adopt as far as possible a short road to enable the utmost reduction in the expenses of goods flow and a large increase in income. By so doing, the increase in income makes possible a relative reduction in the input needed for the unit's income. Under the normal market state and operations or business activities, the benefit derived from this is the important source for improving the economic results of circulation. But in our country's current market pattern, many of these types of practices in which increased income depends on changing hands are irrational. They take advantage of the conditions of the shortage of the means of production and the "double-track" system in prices to greatly increase the circulation stages and cause a large-scale rise in society's sales volume but allow the actual volume of goods in circulation to be smaller than the increase in the gross volume of sales. The drop in the expense rate caused by such conditions is well worth studying and making a concrete analysis. This is because the excess of intermediate steps hands over actual need is harmful and not beneficial to improving the macroeconomic results. Second, rise in the prices of the means of production. We can take P , representing the price of the means of production, as being constituted by $C+V+M$. A real drop in expense refers to, under the conditions of P remaining unchanged, $C+V$ relatively falling and M relatively rising. But now the condition is not like this: Now P is expanding, $C+V$ does not fall and even increases to a certain extent, and if only the scale of its rise is smaller than the scale of rise of P , then it manifests a relative drop in expenses. At present, the method of price-fixing for the means of production is different in commerce and in industrial production departments. It adopts the

method of percentile additions to the cost of production, that is, forming the sales price through adding to the cost of production a fixed levying fee. At each changing of hands a fee is collected. A result, each and every circulation enterprise taking a hand has profits, to earn, and this works up to the sales price reaching the highest price that can be absorbed by the market. In addition, there has been a large increase in outside-the-plan materials. Since the gradual decontrol of prices, their market prices are mostly much higher than the prices in the plan, and in recent years they have show a rising trend which naturally increases the income from sales. There is a great disparity between the prices inside and outside the plan of many important materials, and in actual operations the barrier safe-guarding measure between the two tracks of the "double-track system" is by no means safe or strict enough and as a result, certain operation units take the materials inside the plan to sell outside the plan and thereby reap an increase in income while the expenses decline relatively. All this is not the result of the enterprise improving its efficiency rate but of the enterprise taking the opportunity offered by the outside environment of shortage.

Let us next look at the profit rate of sales income. Since expenses are falling, the profit rate should be relatively increasing. Then what are the causes for the fall in the profit rate? We believe that the causes are as follows: First, the management or control side artificially depressing the profit level. Based on the guideline of "rationally computing the charges and making rational profits," the state Materials Control Department has fixed that the profit rate of state-run materials circulation enterprises cannot exceed 2-3 percent. However, due to changes in the conditions of the market, prices and other sectors, an enterprise's operation plan, in the course of its actual operation, cannot completely maintain absolute stability in each year's profit level. In order that the enterprise's operation results stay below the controlled profit level of the regulations, the enterprise can only put the excess portion to other uses and not let it be reflected as profits. Hence, the profit rate of the sales receipts shown in the statistical figures is mostly around 3 percent. The second cause is the condition of market supply and demand its effects on prices. In a year of the economy being over-heated, the gaps between the supply and demand of the means of production are large, the scale of the rise in prices is large, and the span of the products of rising prices is relatively wide. All this naturally brings about a relatively large-scale rise in the profit level. On the other hand, in the years of retrenchment after the over-heating of the economy, the reverse conditions will appear. In addition, decontrol of the prices of important means of production outside the plan similarly brings about opportunities for a large-scale rise in prices and brings the market prices to a relatively higher level. As for the other years, although the rising trend still remains, the scale of the rise cannot be as high as the year that decontrol was started, and the slow drop in sales profit rate of the materials department is also related to this. The third cause is that due to the

large-scale increase for years in succession in the profits of the circulation sector, large amounts of social funds pour into the circulation sector, the circulation arena is speedily enlarged, competition is aggravated, and the state of monopoly in the form of the sole operation of state-run materials enterprises is broken. As a result, the scale of the rise in the profit rate of the circulation sector naturally shows the condition of a steady fall in comparison with the time just after the decontrol. Fourth, following the progress of the reform, mandatory planning is gradually reduced, control is gradually tightened, the barrier between the materials inside and outside the plan is reinforced, and the profit formed by the price disparity of the double-track system is also reduced year after year. This is why the expense rate is on the downturn and the profit rate of the receipt from sales is also on the downturn.

2. The efficiency rate of utilization of funds and the profit rate of funds.

In recent years, the profit rate of funds has shown a rising tendency. The rise in the profit rate of funds denotes that the profit realized by a fixed amount of funds has increased. Under the conditions of a fixed proportionate rate between cost of production and profit, an increase in profits mainly arises from stepping up the speed of the turnover of funds. According to statistics, in recent years the profit rate of funds and the speed of the turnover of funds have shown changes in a direct proportional rate: The turnover of circulating funds rose from two times in 1981 to 4.3 times in 1987; and the profit rate of funds rose from 5.8 percent in 1981 to 9.8 percent in 1987.

The principal causes for the increase in the speed of the turnover of circulating funds are:

(A) The structural factor. First, the reform has enabled the materials enterprises to obtain a definite autonomous power in operation and thus to create the conditions for invigorating the enterprises. At the same time, the linking of the operation results of the materials enterprises with their own economic interests pushes the materials enterprises to redouble their efforts in operation, practice economy in the use of funds, improve the utilization efficiency rate of the funds, and thereby speed up the turnover of the enterprises' funds. Second, the opening up of the market for means of production, which enables the materials enterprises to organize the placement of orders for materials directly based on market needs and reduces the unnecessary layer-to-layer transfers and appropriations, has also helped in speeding up the turnover of funds. Third, using cities and towns as centers to organize the circulation of materials based on the economic zones has changed the former long-time supply structure, which featured a demarcation between departments and localities by means of planned distribution based on the administrative subordinate relations of the enterprises, and allowed the departments and localities to distribute the materials and organize the supply of goods in kind. This has greatly sped up the

turnover of materials within the plan. In addition, extensively pushing in the materials circulation areas lateral economic combination and cooperation and strengthening the liaison between the enterprises has broken the blockade of the localities and departments, facilitated the rational flow of funds and material resources, and sped up the turnover of funds through the entire materials circulation area.

(B) The shortages environment. Our country's economy has experienced a state of shortage of material resources for a long time, and in recent years this state has been aggravated. Shortages cause a speed-up in the turnover of funds of materials enterprises. First, the materials enterprises face a slanting sellers' market and the demand's strong absorbing force generally causes no impediment to the sales of the materials enterprises. Second, shortages bring about an increase in the number of mid-way changing of hands in the circulation area, which thus increases greatly the volume of sales. Under the conditions of the use-level of funds remaining unchanged, the increase in the volume of sales currently exhibits a speeding up in the turnover of funds. At present, there has been a general increase in the speed of the turnover of funds of materials enterprises. An important cause for this state of affairs is the environment of shortages.

(C) Fall in storage volume. In recent years, the relative volume of storage of materials in circulation departments has been on the downturn. Take for example the number of turnover days of storage: in 1981 it was 112 days, but in 1987 it was 61 days, or a fall of 51 days. Fall in the storage volume implies a reduction in the occupied use of circulating funds, and under the conditions of the sales volume remaining unchanged, it is manifested by speeding up of the turnover. Fall in storage volume may be due to such factors as the circulation stages going more smoothly than before, the production enterprises being nearer to market, increase in the production of more marketable products, and so forth. It may also be due to the role played by such factors as the over-heated growth of the economy, materials enterprises transferring their storage volume to production enterprises, and so forth. In particular, it should be noted that a more important cause is the result of past changes in the form of material resource purchases. This is because materials enterprises buy goods and materials according to market needs, and products that are not suited to demand stay in the production enterprises. This is manifested in the stockpiling of products by production enterprises. Naturally, the increase in the stockpiles of products of production enterprises may also be due to the materials enterprises, caring for their own interests, failing to abide by purchase agreements.

(3) Lateral comparison with other departments.

Here a simple comparison is made with the industrial and commercial department. In recent years, the following changes have occurred in the profit rate of funds of the three departments of industry, material resources,

and commerce: while the profit rate of funds of the materials circulation department has been continuously rising, in the case of the industrial and commercial departments a downward trend has been shown in varying degrees; in 1981 the profit rate of funds of the materials department was the lowest among the three departments (being respectively lower than industry and commerce by 8.7 percent and 5.5 percent). In 1987, it leaped to the top position (respectively higher than the industrial and commercial departments by 0.6 percent and 4 percent). It can thus be seen that the economic results of the circulation of materials manifested by the profit rate of funds not only have shown a rise both in the relative level and the absolute level, but also are higher than the other two departments. Seen from the reciprocal relationships among the departments, why have such changes occurred? How have the changes in the economic results of the circulation of materials affected the other departments? All this is a problem requiring our further analysis.

1. Comparison with the industrial production departments.

Generally speaking, other factors remaining unchanged, improvement in the economic results of circulation are beneficial to improving the results of the production department. Naturally, the materials circulation department and the production department have their own different characteristics and governing laws, and the factors affecting changes in the results are also very complex. Hence, it is quite possible that their changes are not unanimous but may even be contrary.

Seen from the conditions in recent years, there are two principal factors:

(A) Difference in the structure of funds. In the structure of funds of the materials circulation department, circulating funds occupy by far the largest portion, while in the industrial production departments fixed funds occupy a large proportion. This difference in the structure of funds enables the speed of funds turnover in the materials department to be much faster than that of the industrial production departments. Seen from the number of turnovers of the entire portion of funds in 1987, the number of turnovers a year in the industrial production departments was 0.99, whereas that in the materials circulation department was 3.83, or nearly 400 percent more. Because of the large proportion occupied by circulating funds in the materials circulation department, the possibility of the profit rate being increased through stepping up the rate of funds turnovers is relatively large. In the case of the industrial production departments, due to the relatively high organic structure, it is relatively difficult to improve the speed of funds turnovers. In recent years, the reason for the economic results of the circulation of materials showing a good trend is principally the result of increasing the speed of funds turnovers.

(B) The reverse results under the environment of shortages. Shortages bring about a large-scale rise in the

profits of the circulation departments. This is principally due to the role played by the price factor. The circulation departments' dependence on price rises to earn profits undoubtedly adds to the cost of production of the production enterprises. Other factors remaining unchanged, this will affect the economic results of the industrial enterprises. In recent years, there has been a great disparity between the scale of the rise in the ex-factory prices of industrial products and the scale of price rises of raw materials, fuels, and transportation bought by the industrial enterprises. From 1985 to 1987, the ex-factory prices of principal industrial products increased over the preceding year by 9.3 percent, 3.83 percent, and 7.9 percent respectively, but during the same period the increases in the purchase prices of raw materials, fuels, and transportation paid by industrial enterprises over the preceding year were respectively 18 percent, 9.46 percent, and 11 percent. In scale, the latter were larger than the former by 94 percent, 147 percent, and 39 percent respectively. Result: the ratio between profits and production costs of product units of industrial departments gradually dropped. Thus, a paradoxical situation developed where the results of materials circulation improved while those in industrial production declined.

It can thus be seen that the rise in the benefits of materials circulation in recent years were due to a large degree to the price rise in the circulation sector, whereas the decline in the results of the industrial departments was also due to factors coming from the materials circulation sector. Seen from the entire process of social reproduction, a rise in the results of circulation promotes industrial production on the one hand and affects production results on the other.

2. Comparison with commercial departments.

The drop in the profit rate of the commercial departments is mainly due to the poor showing of the turnover speed of funds. The funds of commercial departments and materials departments are of the same kind of structure and in both departments circulating funds occupy the principal portion. In 1987, the ratios occupied by circulating funds in the entire funds were: in material resources departments, 84.2 percent; commercial departments, 76.6 percent; the latter being lower than the former by 7.6 percent. In other words, operations of the funds of these two departments are basically alike, and possess a comparative character. Seen from a comparison of the expense rate, in recent years, the expense ratio of commercial departments has been ascending. The rate in 1987 rose by 14 percent compared with 1981. On the other hand, the expense rate of the materials circulation departments was on the downturn, the drop being 24.5 percent in the above-mentioned period. Seen from the turnover speed of the circulating funds, in 1987 compared with 1984, the turnover speed of the circulating funds of commercial departments dropped by 10 percent, whereas that of the materials circulation department rose by 38.7 percent. It can be seen that in recent years the different changes in the

profit rate of the funds of these two departments were related to both of these two factors. The main point, however, was the difference in the turnover speed of funds.

III. Existing Main Problems

Aside from the exaggerated portion and certain irrational factors pointed out above, there are still problems in the current circulation of materials. Some of these problems have already shown themselves, while others are still lurking:

(1) Inflation in the circulation scale and rise in the social circulation cost.

In recent years, the scale of materials circulation not only has expanded absolutely, but also relatively. The growth speed of the scale of circulation being faster than that of the industrial and commercial departments brings about a rise in the ratio it occupies in the total volume of funds of society. The ratios occupied by materials departments in the fixed assets and circulating funds of society's whole fixed assets and circulating funds, 1987 compared with 1981, rose from 1 percent to 1.4 percent and from 9.9 percent to 11.9 percent in 1986 compared with 1981.

Inflation in the scale of circulation has reference to the relative large or small size of the scale of production. Generally speaking, the production scale determines the circulation scale. Under conditions where the development level of the productive forces and the technological equipment and circulation form remain unchanged, circulation level and production level maintain a fixed proportion; if the circulation scale exceeds the level needed by the production scale, then the circulation level is too large or the circulation scale is inflated. The product volume of the production scale needed for circulation as shown by the gross output value of industry and agriculture, 1987 compared with 1981, increased by 103.1 percent. During the same period, the gross volume of fixed assets of the materials circulation departments increased by 164.2 percent. However, if further consideration is given to the development of circulation enterprises outside the budget and the expansion in the ratio of self-marketing on the part of the production enterprises, then the growth in the gross scale of social circulation was obviously much faster than the growth in the gross scale of production. This was due on the one hand to the normal factor of the circulation scale before the reform being too small and difficult to suit the development of the commodity economy, and since the reform under the conditions of the scale in the beginning being too small the expanded sale naturally becoming relatively larger; on the other hand, it was also due to the abnormal factor of the circulation scale getting out of control and the speed of development being too fast.

Under the conditions of a fixed social gross labor volume, if the labor volume distributed to the circulation department is expanded, then the labor volume allocated to the production department will be relatively reduced. And if it is said that too small a circulation scale is not beneficial to the development of the entire social

economy, then too large a circulation scale is also not beneficial to the development of the entire social economy and the improvement in the economic results.

(2) Too many midway transfers negatively affect society and the economy.

With the inflation in the circulation scale, the number of midway transfers in the course of materials circulation has also increased. In some cases the materials were resold several times in the circulation area and even more than ten times before they ultimately reached the hands of the end-users. Taking part in these reselling activities were state-run materials supply and marketing enterprises, but principally individual material operational units and various kinds of companies that have appeared on the scene in recent years.

The excessive reselling and midway transfers of materials in the circulation sector may be seen by the materials circulation departments as rises or improvements in the results, but are relatively harmful to the entire society. Due to the many changing of hands, price additions are increased in the circulation. This not only directly increases the cost of production of the production enterprises but also, due to prolonging the time that materials stay in the circulation sector, the production enterprises have to correspondingly increase their reserves of raw materials. Also, due to the increase in the middle stages, aside from the large-scale increase in the consumption of manpower and material power, wear and tear of the materials in the course of circulation is also increased. In reality, this represents an extra "deduction" from the wealth of society.

(3) Certain unstable factors exist in the improvement of the results of the materials circulation.

In recent years, although the economic results of materials circulation have shown a rising trend, certain unstable factors have persisted. For example, the large-scale increases in the sales volume and in profits due to price changes and shortages belong to the category of abnormal factors. Take 1985 for instance; due to the shortage of the means of production and opening up of the circulation of material resources outside the plan, the comprehensive average prices of the main materials showed an increase of 17.1 percent over the preceding year, higher than any one of the preceding years. Moreover, the larger the proportion of outside-the-plan materials handled by any enterprises, the better its economic results. Such an environment and opportunity reduced the market pressure which an enterprise should have suffered, weakened the enterprise's will in competition and improvement of operation and management, and also reduced its urge to tap the internal potentials. If the environment and conditions should change, the steady improvement of its economic results will be adversely affected.

IV. Ways To Improve the Economic Results of Materials Circulation

At the moment, the principal factors affecting the economic results of materials circulation in our country are:

structure, environment, and the circulation department's operation and management level, degree of organization, and technical equipment. Hence, improvement of the economic results of materials circulation should start principally from these three sectors.

(1) Performing a good job of balancing the gross volume of supply and demand of the means of production.

In readjusting the supply and demand structure and realizing the balance of supply and demand of the means of production, it is necessary to strictly control the growth rate of the economy, depress the scale of investments in fixed assets, and put the growth of the economy and the investment scale under control—within the scope of permissibility—of supply of social resources, particularly the scope of the availability of the supply of several major kinds of the means of production. In readjusting the investment structure, the main points are depressing nonproductive investments; clamping down investments on long-line processing industries; correspondingly increasing investments on the bottleneck departments such as communications, energy, and raw materials; limiting the import of consumer goods; and using foreign exchange on increasing the import of short-line means of production. At the same time, strengthening the guidance on town and township industries and restricting the development of the non-dimensional economy which heavily consumes energy and competes with large industries for raw materials will readjust the structure and increase effective supply.

(2) Further reforming the materials circulation structure and fostering the development of markets.

The reform of the materials circulation structure has introduced the market mechanism into the circulation of materials, and has caused the appearance of the "double-track" pattern of the existence of two markets, one outside the plan and one inside the plan, two kinds of prices, and two kinds of circulation channels. Although this forces the materials circulation departments to importantly look at and seek benefits of circulation of materials, yet due to the friction between the two sets of structure, the economic results of circulation can hardly make any large progress. Hence, improvement of the economic results of materials circulation will require further reform of the structure of materials circulation.

Under the existing structural and economic environment, formation and development of the markets require fostering by the government. First, we should create or improve the conditions for the growth of the markets. Under the existing structure, the market itself cannot create or cannot take the lead in creating the external environment and conditions needed for its own fostering and development. These conditions include the economic environment of a basic balance in supply and demand, a political environment of democracy, liberty and laxity, a social environment of peace and harmony, speeding up the renovation of the social concept, and establishing the value concept suited to the commodity

economy and ideas of risktaking and bearing, competition, participation, and so forth. Second, we should follow the demands of market development, and speed up the process for forming and changing the essential factors for market structuring, including the market's principal body, market signals, market organization, market rules, and so forth: a) Speed up the steps of enterprise reform and price reform, make the enterprises truly become commodity producers and commodity operators or handlers who operate autonomously and are solely responsible for their own profits and losses, and speedily convert prices from the double-track to the single-track; b) strengthen and perfect the market organization, including the operational structure, management structure, and supervisory structure; and, c) set up and strengthen the market law and regulation system. In addition, we must correspondingly open up markets for other essential elements and develop them at the same pace, and break the locality blockade and push the conversion from locality markets to unified markets.

(3) Improving the operation and management of materials enterprises.

Material enterprises are economic units engaged in the circulation of means of production. In improving the operation and management of materials enterprises, it is necessary to further definitely set up the operational ideology of facing the market and the user-households, and place the needs of the user-households in the first place. We must employ scientific management methods, rationally organize the operational activities of the enterprise, use advanced management measures in the operation and management of materials enterprises, and employ scientific organizing and planning in the enterprise's purchases, sales, storage, and transport. We must also create the external environment for improving the operation and management of materials enterprises. First, change the enterprise's operational mechanism, push the enterprise to face the market and bear the market risks, and have the enterprise's survival and development be directly linked with the economic self-interests of the staff members and workers and the economic results of the enterprise. Second, gradually eliminate the "double-track" price system.

(4) Making the scale of the circulation enterprises become suitable and rationalize their structure.

To achieve these purposes, first it is necessary to make circulation become a trade with an opening up and competitive nature. For this sake, we must break the barriers between the industries and trades and permit social funds to freely move in or out from the same industry or trade; we must break locality blockade, actively introduce the mechanism of competition, and facilitate the rational movement of material resources inside the entire society. Next, we must enforce a rational policy for the circulation industry, and utilize various economic measures and the necessary administrative measures to lead, guide, and push the rational

movement of funds. Finally, it is still necessary to strengthen the trade and industrial control over the circulation of materials.

Expansion of Consumption Fund Viewed

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[Article by Gao Qiyong (7559 0796 5391) and Zeng Xianjian (2582 2009 1696), edited by Tong Zetian (0157 3419 3944): "Present Expansion of Consumption Fund: Its Main Causes and Countermeasures"]

[Text] Over the past two years, due to the fact that a behavioral mechanism was not formed in the process of forming a benefit-regulatory mechanism, consumption fund expansion has resulted. This has led to the expansion of the aggregate demand, and has thus made acute, the contradiction between aggregate demand and supply. In 1987, and when compared with that in 1986, the total retail sales of commodities in society has increased 17 percent, the total amount of inhabitants' bank deposits have increased 40 percent, the volume of cash in hand has increased 20 percent; and the amount of institutional consumption in 1987 was 55.3 billion yuan, which was more than double that in 1982. In 1988, the aggregate volume of the consumption fund was about 120 percent of that of 1987, when compared with that of 1987, the total retail sales of commodities has increased 100 percent, the growth rate of the total amount of inhabitants' bank deposits has decreased, the growth rate of the volume of cash in hand has increased drastically (about 170 billion yuan), and the amount of institutional consumption has also increased. These have clearly illustrated that the consumption fund of individuals and the consumption fund of institutions, which are not part of the total wage, have expanded drastically, and have been expanding in a rapid manner. This has seriously threatened the growth of the national economy. It has thus become an urgent task to take measures to control the growth of the consumption fund.

I. The Main Causes of the Expansion of the Consumption Fund

There are two types of main causes that have led to expansion of the consumption fund—direct and indirect. The indirect causes refer to the mistakes made in the course of reform, and related policy mistakes; and the direct causes refer to the inappropriate behavior of some local departments and enterprises. We are going to analyze these two types of causes in a comprehensive manner.

1. Power has been decentralized excessively and excessive profit-sharing concessions have been made. These factors have been the fundamental causes of the expansion of the consumption fund.

In the initial stage, when enterprise reform was being implemented, the practice of decentralization of power and making profit-sharing concessions played a positive

role in improving the relationship between the state and enterprises, and in establishing a mechanism that could motivate enterprises. However, with the deepening of the reform, the limitations of the practice of decentralization of power and making profit-sharing concessions have been shown apparently. This practice has induced enterprises and staff and workers to simply seek benefits, has stimulated their consumption desire, and has induced this desire to become stronger and stronger. Besides, most of the contracting basic figures stated in the contracts concluded between the state and enterprises in various areas were fixed several years ago. These figures have not been changed although commodity prices have been increased over recent years, and the market situation has been greatly changed. The contract system is not sound. However, no corresponding changes have been made to improve the contract system. Under the present situation, the basic figures are obviously too low. Apart from this, the uncoordinated and unsound situation of the contract system, which is being implemented within an enterprise, has brought about the phenomenon where too many contracts have been made among the departments of an enterprise and departments are only aiming at getting profit from contracting. Besides, in order to take into account the interests of particular areas, governments at various levels have developed production of key products, and have formulated some tax-reduction and favorable policies. However, due to the fact that these policies have not been well-planned and are not specific enough, enterprises have expanded the scope of these policies and have extended the implementation time period of these policies at will. Consequently, a great portion of the profit retention fund of enterprises has been transformed into social consumption fund by using the excuse of invigorating the enterprises.

2. Short-term behavior of enterprises has brought about spiral consumption effects.

Due to the fact that the property right relationship between the state and enterprises has not been defined, that the market of the means of production has not been established, that enterprises are responsible for their profits but not their losses, the short-term behavior of enterprises, and other reasons, enterprises have been aiming at obtaining a high amount of benefits for staff and workers. According to a local survey conducted on investigating 215 large-, medium-, and small-size enterprises, it was found out that these enterprises have issued 18 million yuan in bonuses to their staff and workers in 1988, and this amount was 65 percent more than that of 1987. The per capita amount of bonus issued to staff and workers by the enterprises which have spent the highest amount money on bonuses was 2,800 yuan; this amount has exceeded the amount of the total standard wage by 300 percent. There are 27 types of bonus: sales contract bonus, cadres bonus, bonus for over-fulfillment of contracted amount of returns, bonus for practicing economy, special raw material bonus, purchase bonus, recovery bonus, and so on. Most of these types of bonus

have been issued by using enterprises' retained profits; or the amount of these bonuses have been added to the enterprises' production cost. Such cost has involved 24 types of expense such as: raw materials cost, enterprise management fee, workshop operation cost, trade union funds, nonbusiness expenses, sale income, trade accounts payable, trade accounts receivable, production development fund, reserve fund, staff and workers' canteen fund, losses that have to be compensated, and so on. Besides, there have been various types of ways in which bonuses have been given in the form of material goods such as food, clothes, and so on. Enterprises that had made profits have issued large amount of bonuses, and have thus brought about a high rate of consumption; while enterprises that had suffered losses have also issued bonuses in an improper way. Although there have been attempts to stop the trend of competing among enterprises in giving bonuses, the trend has not been stopped, and the situation has become more serious. As a result, some enterprises have thus overexpended, and have even borrowed money to compete with others in giving bonuses. Consequently, the local financial situation has become tight, and serious damage has been done to the construction of the national economy.

3. There has been ineffective coordination between supervisory and management departments on one hand, and economic levers on the other hand, laws have not been strictly enforced, and there has been ineffective supervision.

The work of supervisory and management departments overlaps with that of economic lever departments. However, there has been no coordination between them, and both of them have been working for, and on, their own. On the basis of this situation and due to the fact that laws have not been strictly enforced, enterprises have violated laws and have used consumption funds for over-quota expenses. Taxation departments have failed to collect bonus tax from enterprises, which had issued an amount of bonus that has exceeded the tax-free level, in accordance with the law; banks have failed to effectively manage cash; and financial departments have failed to effectively guide and control the use of the extra-budgetary fund and retained profits of enterprise and business units. These defects and loopholes have thus led to the situation in which many enterprises have withdrawn part of the production funds and basic construction funds at will for giving bonuses and for consumption. Besides, some administrative and business units have also withdrawn money for giving bonuses invented by them, and the amount of money withdrawn for this excuse has exceeded the stipulated maximum limit. Apart from this, privately-run enterprises and individual households have failed to pay the tax and management fee they should pay, and this has had demonstration effects upon consumption. Moreover, ineffective management and supervision on the personnel of supervisory and law-enforcing departments is also an important reason.

II. Measures To Control the Growth of the Consumption Fund

In summarizing the points mentioned above, we consider that in order to control the growth of the consumption fund,

we should comprehensively use economic, legal and administrative means, and other methods to enhance the guidance, control, and management of enterprises, and to help them to form a self-constraining mechanism. At the same time, the control key points and the main scope (the control key points are the realm of circulation, some types of industrial enterprises, business undertaking units, social groups, and individual laborers; and the main scope means the bonuses that are not part of the standard wage, subsidies, material goods granted at will, some cadres who have the power to control material supply and the distribution of products, the income earned by sale and marketing personnel and individual laborers from speculative and illegal activities, and the consumption of social groups) should be clearly defined. Moreover, the consumption structure of people should be reasonably guided, the rate of the recovery of the banknotes in circulation should be accelerated, and a benign cycle of the growth and application of the consumption fund should be formed as soon as possible.

1. The enterprise contract system should be made perfect, a self-constraining mechanism and a reasonable mechanism of benefits distribution should be established in enterprises.

The government and functional departments in local areas should check the rigid quota fixed in the contracts made between them and enterprises in accordance with market changes, and should adopt the method of making general contracts, in which the quota will be fixed at one time and will never be changed. If we want to control the growth of the consumption fund and want to keep this growth rate lower than the growth of profit and tax and the growth of the distribution of the national income, and to keep the growth of the wage income of staff and workers lower than the growth of profit and tax and to maintain it within the realm of the growth of the realized national income, we should fix in a scientific way the amount of the wage fund of the enterprises that have linked their profit to efficiency. This is to practically link the aggregate amount of the wage of staff and workers of these enterprises with the enterprises' economic returns. In principle, the after-tax portion of the profits retained by an enterprise should be distributed in the proportion of 5:3:2 (i.e. 50 percent of the retained profit should be distributed to production development, funds for renovation, and the reserve fund; 30 percent should be distributed to the rewards fund, and 20 percent should be distributed to the welfare fund).

2. Institutional purchases of social groups should be strictly controlled.

The State Council has stipulated that in the current year, the number of products, which are under special control, to be purchased by social groups is to be increased from 29 types to 32 types, and the control quota is to be decreased by 20 percent in accordance with the amount of expenditure (price factors are not excluded) in 1988. Over the past two years, departments and business units have been prohibited from buying automobiles and high-rank consumption goods, and collective purchase of

brand-name cigarette and wine have also been strictly prohibited. It is stipulated that if these units have been found that they had bought commodities that are under special control, the commodities they had brought will be confiscated by local governments. Besides, the income earned by any bodies that have supplied the commodities to these units will be forfeited, and two months' wage of the leaders of the units involved and the people involved in such cases will be deducted from their annual wage.

3. The tax exemption policy and the policy of giving rewards should be made perfect and improved.

Governments at various areas should organize departments as soon as possible to make perfect and improve the tax exemption policy and the policy of giving rewards, and should specifically define the scope, the objects, the period of evaluation, the degree of tax exemption, and the amount of rewards. From now on, except for the state and local governments, which are entitled to grant approval on tax exemption and the giving of rewards, other departments and individuals are not allowed to decide by themselves the degree of tax exemption and the amount of rewards. Besides, no enterprise can have the power to expand the scope of tax exemption and the scope of giving rewards nor to extend the length of tax exemption period. Without receipt of any official documents issued by the state and local governments, local taxation departments should resolutely collect tax in a strict way and in accordance with the laws.

4. The regulatory role of economic lever departments should be developed, and comprehensive supervision and management should be enhanced.

Starting from this year, business units and enterprises which have issued an amount of bonus (including the monetary amount of material goods granted) that had exceeded the stipulated amount should pay bonus tax on time. Units that have issued bonus to staff and workers without paying tax should pay tax accordingly, and should pay an amount of fine which is about 200 percent of the tax. Moreover, personnel responsible for collecting and managing bonus tax should be blamed. Banks should have supervisory power and should have the power to refuse payment of money for issuing nonstipulated bonus. Privately run enterprises and individual households should pay additional market management fee, and the people in charge of these units should also pay personal income tax in accordance with the standard personnel income tax rate. Institutional consumption tax and banquet tax should be collected, the tax base and the scope of taxation should be expanded, and the standard of tax collection and tax collection management should be raised. Financial departments, taxation departments, and auditing departments should closely coordinate among themselves, and should regularly check the amount of the consumption fund, retained-profit fund, extrabudgetary fund, and cash of departments, enterprises and

business units. Once when cases where bonuses have been excessively granted and the amount of bonus granted has exceeded the stipulated proportion, and welfare fund has been excessively withdrawn are discovered, such amount of bonuses and welfare fund should be turned over to the state. Cases where the bonus standard and welfare standard have been raised without good reason should be regarded as illegal, and an amount that is more than 100 percent of any over-issued amount of bonus will be fined. The gold reserve fund of units should be used in a unified way and should be centralized by financial and accounting departments. Units and people who have made a fraudulent application and claim for bonus, and have retained money without approval should be strictly punished in accordance with laws. The extrabudgetary income of business units should be kept in special financial accounts. If such income is transformed into consumption fund in an illegal way, it will be forfeited. Public security departments, legal departments, and political departments should closely coordinate with economic lever departments, and should punish in economic ways and seriously crack down units and individuals who have used improper means to obtain profit, have received commission, have accepted bribes, have taken part in speculative activities, and have violated laws.

5. Diversification of consumption fund should be guided, and the reform of commercialization of housing should be accelerated.

The diversification of consumption fund should be guided, the expansion of consumption fund should be checked, and the targets of commercialization and privatization of housing should be achieved as soon as possible. According to the international general consumption level of housing, it is estimated that about 40 percent of China's consumption fund is contributed by the low cost of housing. In 1987, there was about 2 billion square meters of publically owned housing area in cities and towns of China. If 40 percent of such area were sold at the price of 350 yuan per square meter, some 280 billion yuan of money would have been collected. Apart from this, the scope of the issuing of debentures and shares and the scope of secondary trade should be expanded to attract the masses. Privately run enterprises and individual households should be encouraged to undertake productive investment and investment in service undertakings, and the amount of investment should be exempted from paying personal income tax. Special control on the production and sale of high-rank durable consumption goods (air conditioners, refrigerators, videos, pianos, and so on) should be adopted. It is recommended to implement as early as possible, a high price and high tax rate policy to check the tendency of over consumption. Moreover, the bank deposit rate should be further adjusted to attract the masses to put their money in banks. These methods, which are to diversify consumption fund, can reduce the amount of money in circulation and can solve the problem of insufficient input of funds.

Central Party School Discusses Socialism, Capitalism

900H0201b Beijing LILUN XINXIBAO in Chinese
23 Oct 89 p 3

[Article: "First in a Series of Summaries on Studies of 'Hot' Questions in Economic Construction and Reform"]

[Text] The Political Economy Teaching and Research Section of the CPC's Central Party School not long ago held a discussion class on economic theory. A little over 70 political economy teachers of the Central Party School and local party schools and leading cadres engaged in the reform of the economic system attended the class. Chaired by Wu Zhenkun [0702 2182 0981], chief of the Political Economy Teaching and Research Section, the class discussed "hot" and difficult questions in China's economic construction and reform. Their discussion on a better understanding of socialism is summarized below.

The so-called better understanding of socialism means, with Marxism as the guide and on the foundation of summing up the experiences and practices of socialism, to deepen the understanding of socialism and to make its theory more scientific.

In the attempt to better understand socialism, first of all we must uphold it. The principles of scientific socialism are not obsolete. For example, the development of society is an objective law of development, in the relationship between productive forces and production and in the movement of contradictions between the economic base and the superstructure, from a lower to a higher level: the general trend in the development of history for capitalism inevitably to die out and be replaced by socialism, and the basic principles of building socialism, are still today our guiding ideology for analyzing the contradictions in the contemporary world and for carrying out revolution and construction. However, upholding scientific socialism also includes abandoning, at the proper time, individual conclusions and principles that have already become obsolete in scientific socialism; and rejecting those things that do not belong in scientific socialism and that, because of people's misunderstanding of the original intentions of Marx and Engels, were imposed on scientific socialism.

The core of how to better understand scientific socialism is in the development of socialism. Socialism is constantly developing amid practice, and its vitality lies in its development and in its blazing of new trails. The practice of socialism since the October Revolution has enriched and developed the theory of scientific socialism. Since the 3d Plenary Session of the 11th CPC Central Committee, our party has deepened its understanding of socialism, proposed and established the theory of the initial stage of socialism and the theory of the socialist planned commodity economy, pointed out the path for building socialism with distinctive Chinese features, and enriched and developed the theory of

scientific socialism. The task now set before us is, with the basic principles of socialism as the guide, to further explore in China—this backward great oriental nation—the special laws for building socialism, so as to further perfect the way of building socialism with distinctive Chinese features and to push forward the theory of scientific socialism.

With regard to the rethinking of socialism, we must make clear the relationship between socialism and capitalism. The rigid viewpoint, which existed in the past, of making socialism and capitalism diametric opposites must, of course, be eliminated. The viewpoint of some people now that does not recognize the essential difference between socialism and capitalism, that plays up the idea that the difference between the two is shrinking and vanishing, and that the two are becoming closer and tending to become the same, is also incorrect.

Socialism and capitalism are two essentially different social systems. In the ownership of the means of production, the principal of capital distribution, the nature of the state regime, and the social ideology, there exist essential differences. However, because the replacement of the capitalist system by socialism is a very long historical stage, particularly under the conditions in which in practice socialism is fairly weak in productive forces and its commodity economy cannot yet be established in a fully developed capitalist system, the coexistence of the two systems for a certain historical period becomes an historical necessity. Because socialism and modern capitalism are both established on the foundation of socialized large-scale production, and also because in both of them a commodity economy exists, they are bound to have points in common in their application of science and technology, their management of a modern economy, and their operating mechanisms for the commodity economy. Therefore, we should import and use for reference the capitalist countries' experiences in managing the economy and in developing the commodity economy, particularly the advanced sciences and technologies, and use them to reform our old system and develop the socialist economy. This will be advantageous for displaying socialism's superiority, enhancing socialism's attractions, and finally vanquishing capitalism.

Forum on Socialist Distribution Held in Beijing

900H0201a Beijing LILUN XINXIBAO in Chinese
23 Oct 89 p 1

[Article by Wan Hong (5502 4767): "Theory and Practice of Socialist Distribution—Summary of a Forum on Economic Theory Held by the Beijing Municipality Economics Association"]

[Text] To celebrate the 40th anniversary of the PRC, to uphold the four basic principles and the opening up to the outside world, and to oppose bourgeois liberalization, on 26 September the Beijing Municipality Economics Association held the second in its series of

forums on socialist economic theory. Comrades at the forum initiated discussions of the theory of distribution according to work, unfair distribution, and wage reform. The speeches of some comrades are summarized below:

Chen Dehua [7115 1795 5478] (associate professor, Economics Department, Beijing University) pointed out the problem that three viewpoints on the theory of distribution—"the Utopian theory of distribution according to work," "the theory of distribution according to essential production factors," and "the theory of distribution according to labor value"—either negate or blur the theory of distribution according to work. From a look at the Utopian theory, we see that there are two reasons for this viewpoint: One is that labor is inestimable. The other is that Marx' distribution according to work and the commodity economy are in opposition to each other. When Marx discussed distribution in a commodity economy he did not discuss distribution according to work, so, under the conditions of a commodity economy, distribution according to work is an idle dream. The viewpoint holds that only if this idle dream—distribution according to work—is dispelled can distribution be carried out well. Chen said that it is really very difficult to measure the amount of labor contained in a commodity, but that this difficulty cannot become a reason for negating distribution according to work because economic categories seem to be impossible to measure accurately. However, it should be admitted that labor can be roughly measured. In particular, under conditions of a commodity economy, on the question of measuring the amount of labor, there can be, through cost calculation and market competition, a rough measurement. Therefore, to say that the commodity economy negates distribution according to work is not as good as saying that, given the commodity economy—this condition—one can fairly easily find the form of distribution according to work. From a look at the theory of distribution according to essential production factors, we see that this viewpoint is contrary to Marxism. What Marx' theory of labor value stresses is that labor creates value. This value is not use value, as is made very clear in *Das Kapital*. One must not confuse use value material wealth with value. Of course, under the conditions of a commodity economy, for the use of any essential production factor a fee must be paid. This is a demand of the commodity economy, and the law in this regard is also acknowledged. But one cannot, from this legitimate nature, confuse the essence of things, deny the exploitative nature of capital income, and deny distribution according to work. In addition, there is a distinction between the creation of value and the distribution of value. In distribution there is the problem of redistribution, and we must not confuse the problem of distribution with the creation of value. Chen maintains that the theory of essential factors is definitely not a development of Marxism. As for the theory of distribution according to the motive power of labor, he thinks that this is a question of academic disputation, but that its theoretical truth or falsity needs to be made clear.

Wei Jie's [7614 2638] (associate professor, Economics Research Institute, Chinese People's University) speech pointed out that the theory of commodities needs to be discussed with regard to the distribution relationships. From a look at reality, we see two major preconditions that must be considered: one is that many kinds of economic components exist side by side; the other is that there is a planned commodity economy. These preconditions have two consequences: the former means that many kinds of distribution relationships exist side by side; the latter means that there is a problem of how to deal with the means of production during distribution. In this regard there are two trends. One is that, theoretically, its inevitable existence is expounded, namely, the theory of distribution according to essential factors. The other is to completely get rid of essential production factors and only stress distribution according to work. In these two trends there is an extreme nature: in the former it is to make distribution according to the means of production theoretical and legal; in the latter it is to not recognize the importance, under the conditions of a commodity economy, of the means of production with regard to the question of distribution. Wei thinks that, under the preconditions and given the results, we must insist on the socialist distribution according to work, handle well the role of essential production factors in distribution, and in the system at a minimum establish two points: First, from the vertical view, we see that we must have this kind of system in order to integrate the microdistribution level with the macrodistribution level. The microlevel means the enterprise's distribution to the workers and the market's distribution to each enterprise. At this level one must recognize the existence side by side of many forms of distribution, and here there can only be one principle—which stresses efficiency—namely, "distribution according to efficiency." However, on the microlevel the principle of efficiency is bound to cause big differences and to cause the problem of unfair distribution. This requires that, at the microlevel, another macrodistribution level be put in place, which would effect an adaptation focused on the microlevel. At this level we must, under the principle of fairness, through tax revenue and other ways adjust the gap in the microlevel income to an appropriate degree in order to maintain the fairness of social income distribution. Thus it can both stress efficiency and insure fairness. At present, the macroregulation of a large number of problems of unfairness is inadequate, and the macro and the micro are not well integrated. He calls this double-layer distribution system one in which "distribution is set by efficiency and income is set by fairness." Second, from the horizontal view, there is the problem of handling the relationship between resource distribution and income distribution. Looking at the present time, the unfairness in various kinds of distribution is often connected to the unfairness in income distribution. For example, the price double-tracking system for resources directly affects an enterprise's income. On the question of resource distribution, for us there exist both serious cases of "eating out of one big pot" and serious cases of unfair distribution. We must coordinate the relationship

between resource distribution and income distribution before we can solve the problem of unfair distribution.

Wen Kui [2429 76008] (lecturer, Economics Department, Beijing Economics College) thinks:

1. At present the confusion in China's order of distribution adversely affects all aspects of the national economy. Manifestations of this are:

First, it affects supply and demand, and from these two aspects damages the balance of the total amount. This situation causes serious effects on the enthusiasm of the worker and on the improvement of the benefits of resource distribution. Second, it damages the rational deployment of resources. Distribution possesses the function of guiding and regulating the deployment of resources, and the confusion in the order of distribution is bound to cause irrationality in resource deployment. Third, the reason on a deeper level for inflation is also the distribution problem. Confusion in the order of distribution leads to overconsumption and to overissuance of currency. Fourth, faults in education and much short-term behavior in society are also directly related to the confusion in the order of distribution. Fifth, it damages the public ownership of the means of production. Unfair distribution causes many people every day to undermine (damage) the public ownership of the means of production, to "make big public property into small public property," and to appropriate public property. Sixth, it seriously undermines the prestige of reform. Unfair distribution easily makes people link reform to corruption.

2. The reasons for confusion in the order of distribution. First, the theory of distribution is backward and the practice of distribution lacks guidance. Second, since reform began there has been a one-sided stress on distribution's stimulating effect, and its advantageous effect on structural changes has been neglected. Third, the price double-tracking system aggravates the confusion in the order of distribution. Fourth, when the reform policy first made its appearance, its order was unsuitable, causing negative effects. Fifth, the complete sets of reform are unsuitable. Wage reform and price reform are always tied together, causing wage reform to be a factor that raises wages to make up for the rise in prices, and neglecting the rational demand for reform of the wage structure itself. Sixth, in reform the cases of being outmoded and not making decisions cause some vacuums, which adversely affect the order of distribution.

3. The objects of distribution to put in order. First, we must formulate a plan for overall administration and reorganization. Second, we must put in order the distribution channels, stopping up those that should be stopped up and dredging those that should be dredged. Third, we must distinguish the various natures of income. Positive income should be protected and perfected; negative income should be restricted or eliminated. Income that is neither positive nor negative, which under given specific conditions can play a role of

reassuring people, should not be lightly eliminated, but also is not suitable for re-expansion. Fourth, there is the question of controlling income. In macrocontrol we must not just stress fairness while not stressing benefits; in microcontrol we must not just stress benefits while not stressing fairness. There should be a two-way adjustment. Fifth, reorganization, administration, and reform must be integrated, and a new pattern of distribution must be formed.

State Reform Commission Plans 1990 Conference

HK2711031989 Hong Kong SOUTH CHINA
MORNING POST in English 27 Nov 89 pp 1, 8

[By Willy Wo-lap Lam]

[Text] A leading reformist commission will hold a conference early next year to reassure the Western world that China is still committed to reform.

The State Commission for the Reform of the Economic Structure (SCRES), a State Council ministry and think-tank which helped ousted [as published] party chief Zhao Ziyang formulate many of his market-oriented policies, is scheduled to hold a national conference on "Reform of the Economic Structure" next spring, possibly before the National People's Congress meets in late March.

The meeting is among a series of high-level conferences Beijing is hosting to reassure Western business partners that reform policies begun by retired patriarch Deng Xiaoping are still in place.

The State Council is expected to hold work conferences on the Special Economic Zones and on the open door policy of coastal cities towards the end of the year.

These will stress that preferential treatment accorded to Hong Kong and Western investors in the coastal cities and zones will remain intact.

The SCRES conference has attracted most attention because it is also aimed at improving the image of hard-line leader Li Peng, who took over the commission's chairmanship from Mr Zhao when he succeeded him as State Council Premier in 1987.

Although Mr Li, who depends on his own conservative think-tanks for advice, has consistently sidelined SCRES, the conference next spring over which he will preside, will help convince critics he is not an all-out conservative.

Participants will include SCRES staff from both central and local levels as well as the nation's leading economists.

Chinese economists say a major goal of the conference is to boost the morale of SCRES staff nationwide.

Chinese sources say since the fall of the Zhao Ziyang faction and attempts by the conservative leadership to scale back reform, both the SCRES headquarters in

Beijing and many regional-level units have been functioning well below capacity.

More important, the conference will study ways and means by which reform can still be pursued now the nation's top priority is to cure and rectify the economy.

Analysts doubt, however, whether Mr Li, who retains iron-clad control over economic policymaking, will allow SCRES economists to break new ground.

During the conference, SCRES officials are expected to profess their allegiance to the spirit of the just-concluded fifth party plenum, which passed a three-year program to reinstate central planning and cut down on the private sector.

Chinese sources say the SCRES meeting will only discuss the less controversial reform programs championed by liberal theorists.

The emphasis will be on how these reform measures will be adapted to suit the rigid requirements of the fifth plenum decision.

However, the fact the commission is holding a meeting on reform has given hope to cadres and economists who do not want to see the policies reversed.

For example, in recent weeks, such noted economists as Mr Wu Jinglian and Mr Zhou Shulian have proposed that now the economy has been cooled down, measures such as price reforms should be taken up again.

The conference may give a significant boost to SCRES staff who are former associates of Mr Zhao.

Soon after the June 4 Tiananmen Square crackdown, rumours circulated in Beijing that such senior SCRES cadres as vice-minister Gao Shangquan and spokesman Song Tingming, both Zhao loyalists, may be axed.

But analysts say provided they abide by the overall rules of the game set down by conservatives, liberal SCRES cadres are given a measure of freedom to work on those reform measures which even hard-line leaders such as Prime Minister Mr Li Peng deem necessary to keep investment dollars from the West coming.

PROVINCIAL

Fujian Governor Chairs Meeting on Screening Companies

OW0812005189 Fuzhou FUJIAN RIBAO in Chinese
19 Nov 89 p 1

[By the General Office of the Fujian Provincial People's Government]

[Text] On 16 November Wang Zhaoguo, head of the provincial leading group in charge of screening companies and governor of Fujian, chaired a meeting attended by all group members to study views on broadening the

scope of screening companies in Fujian. At the meeting Wang Zhaoguo emphatically pointed out that, although Fujian has accomplished a great deal of work in screening companies as a result of the leadership provided by various party and government departments, the accomplishments are still way behind what the central authorities and masses want. He said that all regions, departments, and units must take even more effective measures to screen companies. The views expressed at the meeting are as follows:

First, great determination must be shown to close down and merge a number of companies, especially those companies operating in the circulation sector, which have become too large in number. Plans for their closure and merger should be drawn up by the authorities in charge of these companies, and provincial departments must take the initiative to close down and merge companies under them in order to set an example for other departments. Feigning compliance and trying to escape screening by changing the company's name must be prohibited. Personnel of companies that have been closed down or merged must be settled properly. Measures must be taken to prevent personnel of companies from withdrawing company capital at the time of closure or merger, or from dividing assets. Those who do so must be handled strictly. Second, attention must be given to handling a number of large and major cases. Efforts to screen companies should be closely integrated with punishing corrupt personnel and encouraging administrative cleanness. Resolute efforts must be made to handle major crimes committed by county officials or cadres of higher rank—cases which have great social impact. Departments in charge of supervision, auditing, business, commodity price, procuratorial, and judicial affairs must work in coordination with one another in handling lack of discipline and lawlessness on the part of companies. Companies which have relatively great social impact and which the masses have complained about should be audited first, and all problems discovered should be dealt with promptly. The higher leading authorities should send competent inspectors to handle those units and companies where problems are serious but cannot be effectively resolved.

Third, problems about party and government cadres working at companies should be thoroughly resolved. The extremely small number of party and government cadres who still work at enterprises or companies should resign either one of their posts as quickly as possible. The cases of some cadres whose concurrent jobs are essential at joint ventures, cooperative ventures, and ventures solely owned by foreign investors should be examined and approved one by one and handled strictly according to relevant regulations.

Fourth, the nature of private enterprises operated in the name of state-owned or collectively-owned companies must be determined clearly so that they can be managed more effectively. This is a complex project that must be handled by following strong policies. The attitude in handling them must be firm and the steps sure and

steady. Investigation and study should be conducted at selected units, guidance given according to the nature of their needs, and the scope of screening then broadened step by step.

Fifth, there should be stronger leadership over the work of screening companies, which has now entered the most important stage where time is short and the workload is heavy. The principal leaders of all departments must handle this task themselves. They should improve the necessary organs, reinforce them, organize all general affairs departments to intensify inspection and supervision, and make sure that the bounds of policies are not exceeded.

Yuhong District Cleans Up 'Fraudulent' Enterprises
40060019B Shenyang LIAONING RIBAO in Chinese
5 Nov 89 p 1

[Summary] In September, Shenyang City's Yuhong District began clean up operations against "four fraudulent" enterprises. These are individual or private enterprises which do business under the name of a collective, school, civil administration, or village in order to receive preferential treatment from the State with regard to taxes, credit, and other matters. There are more than 600 "four fraudulent" enterprises in the district.

Yuhong District categorized each enterprise according to its true management situation. Those enterprises whose existing fixed capital assets include some collective part (such as use of a collective site, factory building, or equipment) were classified as collective enterprises. They are to progressively increase their collective portion and change distribution procedures so that they become collective enterprises in reality as well as in name. Upon registration, individual enterprises which are nominally titled collective will have their names changed to individual or private enterprises.

Yuhong District is adhering to policy as it sorts out the "four fraudulent" enterprises matter, and is not forcing individual and private enterprises to incorporate into collective enterprises, but rather is instructing them to adhere to national policy and abide by the law.

Qinghai Economic Situation 'Improves'
HK0112142189 Xining Qinghai Provincial Service in
Mandarin 2300 GMT 29 Nov 89

[Text] In the first 10 months of this year, the market in Qinghai was fair, the consumption craze had markedly waned and the consumption situation in the urban and rural areas was normal.

With the campaign for economic improvement and rectification going deeper and deeper, commencing from March this year, the total retail prices of commodities in society registered a negative growth for three consecutive months. From January to October, the province's total retail prices of commodities in society amounted to

2.356 billion yuan, a drop of 13.8 percent, after allowing for price increases. Of which, the total volume of retail sales of daily consumer goods came down by 14.1 percent. Meanwhile, the confusion in circulation of the agricultural means of production has also been cleared up. The province's total retail prices of capital goods in the agricultural sector from January to October this year came to 165 million yuan, an increase of 18.6 percent over the same period of last year.

Municipal Government Plant Directors Hold Meeting

SK1112064389 Tianjin TIANJIN RIBAO in Chinese
17 Nov 89 p 1

[Excerpts] On 16 November, as a token of implementing the guidelines of the 5th Plenary Session of the 13th Party Central Committee, the municipal government assembled plant directors and managers of some large and medium-sized enterprises to analyze together Tianjin's current situation given the slow growth of industrial production, and to mobilize all industrial enterprises in the municipality to immediately summon up their courage to overcome difficulties and develop production by hook or by crook.

Since the beginning of this year, the municipality has been faced with many difficulties in arranging for industrial production. However, thanks to the efforts of various fields, some achievements have been scored. In particular, the production of those readily marketable light and textile products and those products closely related to the people's livelihood have gone up by a relatively wide margin; production of raw materials products and products earmarked for aiding agriculture has increased steadily; and a number of technological transformation projects imported from abroad have been put into production one after the other, which have played their role after meeting their production targets. At the moment, industrial production still faces such difficulties as a weak market, shortage of funds, and lack of raw materials. The municipal government pointed out that to extricate industrial enterprises from difficult their position and check slow growth in production as quickly as possible, it is necessary to have a correct and clear understanding of the current economic situation, guard against the negative mood of waiting, turn pressure into incentives, consider challenge as opportunity, and depend on the masses to think of ways to stabilize the economy. [passage omitted]

With a view to further revitalizing large- and medium-sized enterprises, the municipal government decided to continuously implement special policies among industrial enterprises so that the limited funds will be used where they are most needed. Recently, the municipal government has once again made arrangements for 1,400 enterprises in order of importance and urgency. Towards those enterprises whose production and marketing situation is relatively good in domestic and international markets, and towards those leading plants which play a

key role in the municipal production and the enterprises supporting the production of these leading plants, production elements should be supplied on a priority basis and some policies should be provided to support their production. Some supporting policies should also be provided for those enterprises whose products have stable sales and can be basically sold out. In this aspect, the lifelong system will not be carried out. Those enterprises which fail to show signs of improvement after being supported should no longer enjoy the special policies.

The municipal government also called on industrial departments to make appropriate arrangements for the livelihood of workers and staff members of the enterprises with poor economic efficiency. Leaders of enterprises should be strict with themselves, set an example for workers and staff members, and strive to tide over difficulties together with workers and staff members.

FINANCE, BANKING

Some Questions About Value-Protected Subsidy Rate

90OH0079A Beijing JINGJI RIBAO in Chinese
9 Oct 89 p 2

[Article by Geng Li (1649 0500): "Some Questions About Value-Protected Subsidy Rate"]

[Text] Editor's note: Value-protected savings have become an important issue in economic life. Many readers have written to us asking about the details of value-protected savings. So we asked the official concerned from the Interest Rates Office of the People's Bank of China to explain a number of matters of general concern to the readers.

How Are Value-Protected Subsidy Rates Calculated?

So-called value-protected savings means that when money is withdrawn from the bank when the account matures, its value will remain unchanged. In other words, at the time when the account matures, the purchasing power of principal plus interest should equal that of the money when it was deposited in the bank. Based on this principle, the earnings rate of a deposit should equal the extent of price increases during the deposit period. Since the bank also pays interest on savings in accordance with the current interest rate, the earnings rate of deposits consists of two parts: one, interest rate, and two, the difference between the rate of price increases and the interest rate. We call this difference the value-protected subsidy rate. Banks are required to announce to the public the value-protected subsidy rate every quarter. To coordinate with current interest rates, the announced value-protected subsidy rate is an annual subsidy rate.

Value-protected annual savings earnings rate = annual interest rate + annual subsidy rate

Value-protected annual savings subsidy rate = annual rate of price increases - annual interest rate.

Formula for calculating annual subsidy rate: $[(\text{price index at end of deposit period} / \text{price index at time of deposit} - 1) - (\text{interest rate on deposits} \times \text{deposit period})] / \text{deposit period} \times 100 \text{ percent}$

The ratio between the price index in effect when the money is withdrawn and the price index in effect when the deposit was made minus one is the extent of price increases during the deposit period. Subtract the interest rate during the entire deposit period (calculated in years) from the rate of price increases. The remainder is the value-protected subsidy rate during the entire deposit period. Divide this by the entire period, and the result is the annual subsidy rate.

It needs to be pointed out that this basic formula is applicable only to those deposits that enjoy value protection for the entire deposit period. In other words, it is applicable to all deposit accounts opened after 10 September 1989 [as published].

Savings departments shall then pay the depositor an amount of subsidy based on the published quarterly value-protected subsidy rate, the amount of deposit, and the deposit period. The formula is as follows:

Amount of value-protected subsidy due = amount of deposit $\times$ annual subsidy rate in effect when the money was deposited $\times$ deposit period

For instance, a person deposited a sum of 500 yuan in an account maturing in three years on 12 April 1989. At the time he deposited the money, the price index was 129.2 percent. Suppose the price index is 192.3 percent when the account matures. The interest rate is 13.14 percent. Based on the formula, we have:

Annual subsidy rate in the second quarter of 1992 = $[(192.3 / 129.2 - 1) - (13.14 \text{ percent} \times 3) \times 100 \text{ percent}] = 3.14 \text{ percent}$

Amount of value-protected subsidy due = 500 yuan $\times 3.14 \text{ percent} \times 3 = 47.1 \text{ yuan}$

Value-protected annual earnings rate = 13.14 percent + 3.14 percent = 16.28 percent.

However, value-protected savings went into effect on 10 September 1988. For deposits made before this date, banks will automatically apply the value protection to them starting 10 September 1988. In these cases, the price index in effect when the money was deposited cannot be used in the formula. Instead, the price index in the quarter preceding the implementation of the value-protected subsidy system should be used. This gives rise to a derived formula. When calculating the value-protected subsidy rate for deposits made before 10 September 1988, we should use the derived formula.

The formula is as follows: annual subsidy rate = $[(\text{price index in effect when the deposit matures} / \text{price index in}$

quarter before the value-protected system took effect - 1)
- (interest rate 4 x number of quarters with value-protection)] number of quarters with value-protection x 4 x 100 percent

Rendered in words, this is what the formula means: First we find the value-protected subsidy rate for the period with value protection by subtracting the interest rate (currently the 3-year interest rate) from the rate of price increases during the value-protected period. Divide that number by the number of quarters with value-protected subsidy. The quotient is the quarterly value-protected subsidy rate. Multiply the quotient by 4 and the product is the annual subsidy rate.

It is not enough just calculating the annual subsidy rate. This is because not all deposits mature on the same date, so the number of days with value-protected subsidy also varies. Therefore, banks must further convert the annual subsidy rate into daily subsidy rate in accordance with this formula: daily subsidy rate = annual subsidy rate 360 (days).

Savings agencies shall pay the depositor an amount of subsidy depending on the number of days for which the deposit is value-protected. Amount of value-protected subsidy = amount of deposit x daily subsidy rate on date of deposit x deposit period (in days).

For instance, banks have announced the value-protected subsidy rate for the first quarter of 1989 as 8.36 percent. This is how the figure of 8.36 percent was arrived at:

Annual subsidy rate = $[(137.4 / 10.3 - 1) - (0.1314 \times 5)] \times 4 \times 100$ percent = 8.36 percent

Daily subsidy rate = 8.36 percent 360 (days) = 0.2322 percent

To illustrate: a depositor puts 3,000 yuan into a 3-year account, maturing on 13 October 1989. The value-protected subsidy rate for that quarter is 8.36 percent. The depositor is entitled to the following amount of value-protected subsidy: 3,000 yuan x 0.2322 percent x 393 (days) = 273.76 yuan

How To Calculate the Price Index for the Purpose of Working Out the Value-Protected Subsidy Rate?

Since the value-protected savings earnings rate equals the extent of price increases, some people ask why the sum of the value-protected subsidy rate announced by the banks and interest rate does not equal the price index announced by the State Statistics Administration. This is because the price index used in calculating the value-protected subsidy rate is the "general price index for national social commodity retail sales and services" tabulated by the State Statistics Administration. This index is not the same as the Administration's "national retail price index" published in the newspapers.

To begin with, the two indices have different base periods.

The "general price index for national commodity retail sales and services" is based on the fourth quarter of 1987

as 100. It is an index with a permanent base. Subsequent quarterly indices are relative to that of the fourth quarter of 1987. In this way one index is comparable to every other index. In contrast, the "national retail price index" is usually comparable to that for the corresponding period in the preceding year.

Second, the two indices differ in scope. To correspond to value-protected savings, the "general index" includes not only the social commodity retail price index, but also the service price index. It includes miscellaneous price indices such as those for food, clothing, articles of daily use, cultural and entertainment products, newspapers, magazines, drugs, medical supplies, building materials, fuels, agricultural capital goods, and the price index for services. The "national retail price index," on the other hand, does not include the service price index.

Third, the "general index," which is used in calculating the value-protected subsidy rate, is an index for alternate quarters for the following reason. The value-protected subsidy rate for each quarter must be publicly announced about 15 days before the quarter begins and before the price index for that quarter is available. So the only thing we can do is to use the price index for the latest quarter instead of the price index for the quarter concerned. Thus, the price index used is actually two quarters old. For instance, when we calculate the value-protected subsidy rate for the fourth quarter of 1989, we use the price index for the second quarter. Logically speaking, the use of a price index two quarters old does not reflect the real impact of commodity prices on deposits. It is true that this is not a case of the state taking advantage of the depositor or vice versa, since old price indices are used at the beginning of the deposit period and when the deposit matures. However, there is indeed a question of unfairness between one depositor and the next. When two people deposit the same amount of money on two consecutive days respectively, different subsidy rates would apply and their respective subsidies may differ substantially. The daily subsidy rate is the most accurate barometer of the impact of commodity prices on deposits. At the moment, however, the use of daily price indices is fraught with difficulties. In the future we may consider using alternate-month indices and announce value-protected subsidy rates on a monthly basis. This can help narrow the "time difference" between subsidy rates.

Which Should Be Used To Calculate the Extent of Price Increases, Circular Ratio Growth Rate Method or the Fixed Base Growth Rate Method?

We use the fixed base growth rate method to indicate the magnitude of price increases. Some people say that the use of the fixed-base method nullifies the variability of commodity prices during the entire deposit period. Say the price index shoots up midway through the deposit period but falls back toward the end of the deposit period. In that case, the price index at the end of the deposit period would be rather low. To avoid this kind of situation, it is argued, we should use the circular ratio

method instead of the fixed base growth rate method in our calculations. In fact, whether we use the circular ratio growth rate method or the fixed base growth rate method to calculate the extent of price increases within a specified period of time, the result is the same.

For instance, these are the announced "general price indices for national social commodity retail sales and services": fourth quarter, 1978, 100; first quarter, 1988, 108.3; second quarter, 1988, 112.9; third quarter, 1988, 122.3; fourth quarter, 1988, 129.2; first quarter, 1989, 137.3; and second quarter, 1989, 137.4. To find the extent of price increases from the first quarter of 1988 to the second quarter of 1989 using the circular ratio growth rate method: $(112.9/108.3 \times 122.3/112.9 \times 129.2/122.3 \times 137.3/129.2) - 1 = 26.87$ percent. To find the same extent using the fixed base growth rate method: $(137.4/108.3 - 1) \times 100$ percent = 26.87 percent

The value-protected subsidy rate announced by banks each quarter applies to deposits maturing at that time. The value-protected subsidy rate is arrived at by dividing the price index when the deposit matures by the price index when the deposit was made and then subtracting the interest rate from the quotient. It is a reflection of the magnitude of price increases between the time the money is deposited and the time the money is withdrawn. The value-protected subsidy has absolutely nothing to do with the deposits made that quarter. The value-protected subsidy rate for the latter deposits should be calculated in accordance with the value-protected subsidy rate for the quarter in which they are withdrawn. Some people rush to make a deposit the moment they hear the banks have announced a higher value-protected subsidy rate. Actually, the value-protected subsidy rate for their deposits has yet to be worked out by the bank in accordance with the value-protected subsidy rate in effect at the time when their deposits mature. If the price index has dropped by then, the value-protected subsidy rate would also have come down.

Is the Value-Protected Subsidy Rate Calculated in Stages?

Unlike interest rates on savings, the value-protected subsidy rate is not calculated in stages. The value-protected subsidy for a deposit is calculated in accordance with just one value-protected subsidy rate. In other words, for the entire period from the time value protection takes effect to the time when the deposit matures, the value-protected subsidy will be calculated based on the quarterly subsidy rate in effect when the money is withdrawn. Note the relationship between one announced subsidy rate and the next. They are not accumulative. For instance, 100 yuan were deposited in a three-year account, maturing on 4 October 1989. Some people assume that since the banks have announced five quarterly value-protected subsidy rates during this period, the subsidy rate for the 100 yuan deposit is the sum of the five quarterly subsidy rates. This method of calculation is wrong. The subsidy on this sum should be calculated in accordance with the value-protected subsidy rate in effect during the fourth

quarter of 1989. For all deposits maturing in the fourth quarter of 1989, the applicable subsidy rate for the entire deposit period from the first day of deposit to the day they mature is the subsidy rate for the fourth quarter. The amount of subsidy on the 100 yuan deposit is: $100 \text{ yuan} \times [8.36 \text{ percent} \times 360 \text{ days}] \times 384 \text{ (days)} = 8.92 \text{ yuan}$.

INDUSTRY

Hunan's Third Quarter Industrial Output

90OH0184A Changsha HUNAN RIBAO in Chinese
19 Oct 89 p 2

[Article by Jiang Taixin (5592 1132 0207) and Zhang Guangyou (1728 0342 0645): "Provincial Statistics Bureau's Third Quarter Figures Indicate Steady Increase for Hunan Province's Industrial Output"]

[Text] Statistics from the Provincial Statistics Bureau indicate that Hunan's industrial output totaled 9,784 billion yuan during the third quarter, an increase of 4.9 percent over the same period last year. Of this total, 3,375 billion was achieved in September, an increase of 2.9 percent over the same period last year.

Several key aspects characterized third quarter industrial output: there was continued growth in the output of some of the raw materials urgently needed by industry, and the output of goods for which demand is weak was brought under control. Hunan Province's industry and transportation front further carried out the policy of readjusting the product mix. With regard to the supply of limited electric power and raw materials, top priority was granted to urgently needed industrial and agricultural production, which enabled output in these categories to post relatively large gains. In comparison with the same quarter last year, output of raw coal increased by 21.5 percent, iron ore by 11.8 percent, steel by 11.3 percent, finished steel products by 25.9 percent, and ferroalloys by 23.4 percent. In addition, the output of various minerals containing sulphur and iron, soda ash, caustic soda, and methyl alcohol posted increases of 15.0 to 41.4 percent. Output of some products with weak demand decreased, including bicycles, watches, leather, and cloth shoes.

Readjustment of township enterprises has seen preliminary success. Some of those which had been competing with state-run enterprises for raw materials and energy have been brought under control. According to preliminary statistics, nearly 1000 such township enterprises have halted or shifted production during the third quarter.

During the same period, the major indicators of economic performance for enterprises within the state budget posted steady gains and were slightly higher than the national average.

Hou Zongbin Speech on Industry, Economy

90OH0184B SHAANXI RIBAO in Chinese
20 Oct 89 p 1

[Article by Industry and Transportation Division, General Office, Shaanxi Provincial Government: "Governor Hou Zongbin States After Hearing Reports on Production in Industry and Transportation That We Must Stabilize Policies, Stabilize People's Thoughts, Stabilize Enterprises, and Stabilize the Economy"]

[Text] On the 17th and 18th of October, governor Hou Zongbin [0186 1350 6333] listened to reports concerning production conditions in industry and transportation from textile, machinery, electronics, and weaponry departments under the Xian municipality and the province, as well as the Western Power Company. Hou Zongbin issued an important speech concerning current economic work.

He pointed out that production in industry and transportation has fallen steadily in Shaanxi province during the third quarter. The monthly growth rate fell by 7.1 percentage points in July, August, and September. During the same period, primary economic performance indicators fell faster than production. Since July, the output of industrial enterprises within the state budget fell by 4.96 percentage points. Income from sales fell by 13.04 percentage points, and taxes on profits fell by 13.01 percentage points. The situation is extremely serious, and leaders at every level must take it very seriously. They must take aggressive measures to stabilize policies, stabilize the public mood, stabilize enterprises, and stabilize the economy. They must put forth a great effort to achieve the targets of struggle which were set early this year by the provincial Party Committee and the provincial government. These targets call for us to "preserve the eight principles and strive for the ten objectives."

Hou Zongbin spoke about 12 things that must be achieved. One, we must strengthen the management and command of production, and we must organize our cadres to penetrate deeply at the grassroots level to solve production-related problems in a timely manner and help enterprises to weather this difficult period. Two, we must earnestly analyze the situation and set the production plan for the first quarter next year as soon as possible. Three, we must take very seriously the market's weakness. We must formulate as quickly as possible forceful measures to increase the market's adaptability in order to convert this constraining factor into a force that will further our efforts to readjust the product mix and raise economic returns. Four, the "Enterprise Law" has clearly stipulated that we must resolutely carry out the factory manager responsibility system. On this point there can be no wavering, much less can we return to the old road. Five, the system of contracted enterprise management, the linkage between wages and economic returns, and the various systems of economic responsibility must continue to be carried out during the life of

the contracts. People must resolutely abide by their contracts in conducting business, and they cannot make arbitrary changes. Six, various reform programs within enterprises, especially those connected with job allocation and labor systems, must continue to be carried out. Seven, the policy that enterprises use in disbursing operating funds in accordance with the regulations must continue to be carried out. Eight, in order to survive and grow in the actual economic conditions now existing, enterprises should be allowed to, by reasonable quota and ratio and by paying attention to combining material awards with honorary awards, implement single-item contracting, promotion, and procurement and incentive measures regarding these single-items. People must take care to combine material bonuses with strictly honorary bonuses. Nine, we must continue to develop lateral ties in an aggressive and proper manner, developing economic cooperation between different areas as well as at the international level. Ten, no authority granted to enterprises in the past shall be taken away from them. Eleven, township enterprises play a very important role in the development of the national economy, particularly in the development of the rural economy. The ten points of policy formulated by the provincial government regarding the development of township enterprises must continue to be carried out in order to promote development. Twelve, within the context of an economy in which ownership is primarily public, we must, in accordance with the law, develop individual entrepreneurs and privately run economic units which belong to socialism, and we must safeguard their ability to engage in proper business activities and retain legally earned income.

CONSTRUCTION

Forty Years of Arduous Construction Viewed

HK2211132089 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 9, 1989 pp 4-15

[Article by Xue Muqiao (5641 2606 2890) edited by Shu Ya (5289 0068): "Forty Years of Arduous Construction"]

[Text] The PRC was founded 40 years ago. Over the past 40 years, the Chinese people, under the leadership of the CPC, have built China from an impoverished and backward agricultural country into an industrial and agricultural country with an industrial structure that is integrated and has a full complement of different categories of industries.

Since the founding of the republic, we have passed through two big catastrophies in the form of the "three years of the great leap forward" and the "great cultural revolution" and lost 20 years of good opportunities in the world's economic prosperity and development. It was only after 1978 that we began to catch up and reviewing the course of events in the 40 years, we can recall them as comprising three separate periods, namely, the 3 years of the recovery period and the First 5-Year Plan period, the 3 years of the "great leap

forward" up to and including the 10 years' disturbances of the "great cultural revolution," and the period of thriving economy after the crushing of the "gang of four."

I. The Three Year Recovery Period and the First 5-Year Plan Period

On the eve of liberation and during the liberation period, the most serious difficulty we met with in the economy was the serious state of currency inflation resulting from the 12-year war. In the course of the retreat and defeat of the KMT, the fabi and the golden yuan notes collapsed one after the other, and commodity prices rose to an unprecedented high degree. On 1 December 1948, we began to issue renminbi. Because of the large military expenses at that time and the inability of financial receipts to cover expenses, the volume of RMB issuance was rather large. Although the rise in commodity prices was far slower than at the time of the fabi and golden yuan notes it was still being continued. The state did its utmost to control the issuance of banknotes and in addition speedily set up state-run commerce and supply and marketing cooperative commerce, bought in large quantities of important industrial products and agricultural products, performed in a planned manner the regulatory buying and selling operations and engaged in a bitter struggle against the speculators in the markets. Early in 1950, the war basically came to a triumphant end, the state budget was nearing the balancing point, and the state decided to issue 300 million yuan of treasury bonds and thus effected the return flow of the surplus money in circulation. In March of the same year, it released for sale large quantities of material resources held by the treasury and in one stroke decimated the currency inflation which had been raging in the previous 12 years. Commodity prices were thus stabilized and this was indeed a world-renowned miracle.

In April of the same year, the state, for the sake of relieving the privately run industries and commerce from their difficulties, issued additional banknotes in a planned manner in an attempt to purchase the surplus commodities which temporarily appeared in the markets at the time. Concurrently, it rapidly developed the supply and marketing cooperatives and purchased large quantities of various kinds of agricultural products such as grain and cotton. With money in their hands, the peasants not only could resume agricultural production but also could purchase various kinds of industrial products, thereby helping to overcome the difficulties of industry and commerce in the urban areas. In May of that year, the central financial and economic commission convened a conference of the chiefs of industrial and commercial bureaus in seven large cities and towns. The conference decided to universally call urban and rural areas material resources interflow fairs and meetings on the one hand to promote the sales of urban industrial products and on the other hand to market the agricultural husbandry and native products of the rural areas. This was meant to resume the economic interflow between the cities and the countryside and to enable the

urban and rural economies to be speedily released from the then existing difficulties.

Even before the anti-Japan war our country's rural economy had already been in a state of near collapse and the 12-year war made it even worse. Peasants in old liberated areas in the north had carried out land reform beginning in 1950 while the new liberated areas also universally carried out land reform. Thus, this removed from the shoulders of the peasants the heavy burden that had oppressed them for several thousand years. Concurrently, by means of establishing supply and marketing cooperatives, peasants' banks and credit cooperative societies everywhere the harsh exploitations of the merchants and the usurers were removed. In spring 1950, peasants in various localities universally complained about the lack of marketing channels for their various kinds of special and native products, but through the establishment of urban and rural products exchange fairs, meetings, and encouragement given to small merchants and peddlers to carry out the interchange of commodities between the cities and the countryside, the problem was speedily solved, various kinds of rural sideline production also followed in development; therefore, rural economy was allowed to speedily recover and develop.

In 1950 we began the unification of the entire country's financial receipts and disbursements and maintained the basic balance of receipts and expenditures.

In June 1950, the 7th Plenary Session of the 3d CPC Central Committee was convened and the session decided to recover industrial and agricultural production in three years' time and to strive for the basic turning for the better of the country's finance and economy. Beginning in the winter of 1950, China was compelled to take part in the anti-America aid-Korea war. This consumed a large amount of financial power and manpower. But due to the rapid development of production and strenuously practicing economy, China was still able, during these years, to maintain the balance of financial receipts and expenditures, with even a small surplus leftover, which helped to maintain and continue the stability in commodity prices. By 1952, the tasks ordained by the plenary session and the output volume of by far the largest proportion of the principal industrial and agricultural products surpassed the highest level before the war (1936). In 1952 the gross industrial and agricultural output value increased by 77.5 percent over 1949 of which agriculture increased by 48.5 percent, light industry, 114.6 percent and heavy industry, 229.7 percent. In 3 years, the average gross output value of industry and agriculture showed an annual increase of 21.1 percent, of which the annual increase of agriculture was 14.1 percent, that of light industry, 29.0 percent, and heavy industry, 48.8 percent. Such a high growth rate was obviously possible during a period of recovery.

In the course of the recovery of the national economy, the constituent portion of the socialist economy developed more rapidly and hence the proportion occupied by

state-run economy rose continuously. In 1952 production of socialist industry increased by 310 percent over 1949; and although there was also some development in private capitalist industry, its ratio in the gross output value of industry dropped rapidly. In 1949, of the gross industrial output value (not including individually run industry) the ratio of socialist industry was 34.7 percent, that of national capitalist industry was 9.5 percent (including public and private jointly run enterprises, orders for processing, and so forth), that of capitalist industry, 55.8 percent; by 1952, the ratio of socialist industry was 56.0 percent, national capitalist industry, 26.9 percent and capitalist industry, only 17.1 percent. On the side of commerce (retail business), in 1952 the retail business volume of socialist commerce increased by 410 times over 1950; of the whole retail business, the ratio of socialist commerce rose from 15 percent in 1950 to 42.6 percent in 1952, the ratio of retail business of cooperative societies was 0.2 percent, that of privately run commerce, 57.2 percent, and privately run commerce still surpassed state-run commerce.

When New China was first established, a planning bureau was set up in the central finance and economics commission. In 1950, Soviet experts in planning and statistics were appointed to assist in carrying out the research and formulation work on the First 5-Year Plan. At the time, it was fixed that in the First 5-Year Plan period, the most important task was the build-up of the initial foundation for industrialization. The Soviet Union was to help us to build 144 (later expanded to 156) major construction projects and, including the projects to be built by ourselves, there were altogether some 700 projects. In the second half year of 1952, the state Planning Commission was established. In 1953, the First 5-Year Plan period began. For the sake of establishing the initial foundation for industrialization, heavy industry was the major point in the construction of the First 5-Year Plan period; this was entirely correct and necessary. Particularly, in the case of the 156 Soviet aid projects, the technology was advanced (level of the 1950's) and they served as the basis for China's industrialization. Early in the First 5-Year Plan period, in view that the growth rate of production in the recovery period was rather high, the demand was that the growth

rate in industrial production should be 18 percent each year but the party Central Committee, striving for stability and safety, cut it down to 15 percent, to avoid the error of too hasty an advance. But in 1953, due to the error of estimating that there had been a surplus of 3 billion yuan from the preceding year, this 3 billion yuan was taken as capital construction investment and as a result the investment scale in the state budget rose sharply from over 4 billion yuan in 1952 to 8 billion yuan. This resulted in a rather tense situation. Learning from the lesson of 1953, the construction plans in 1954 and 1955 were relatively speaking more moderate. In particular, in 1955, due to the shrinking of the construction scale, there was a surplus of left-over construction materials such as steel and other materials. On July 31 that year, Comrade Mao Zedong rendered a report on the "Problem of Cooperativization of Agriculture" and in December he personally edited the publication "Hightide of Socialism in China's Rural Areas." He wrote the preface in which he criticized the rightist conservative ideas. On 23 January 1956, the party Central Committee announced the "Outline for National Agricultural Development From 1956 to 1967" which demanded that in 12 years' time the growth in production of grain and cotton should be 100 to 150 percent, thus bringing about another wave of calling for a speedy and hasty advance. In 1956 capital construction investment in the budget rose from the preceding year's 9.4 billion yuan to 14.7 billion yuan. Over-heated demands came forth from the various localities and the over-heated sentiments far surpassed those in 1953. Hence on 30 June, under the instructions of Premier Zhou Enlai and Comrade Chen Yun, RENMIN RIBAO carried an editorial, "In Opposition To a Rash and Hasty Advance." At the same time the State Council called several meetings to discuss measures to cut down the production and construction plans. In the 1957 budget capital construction investment was cut down to 13.1 billion yuan and the tense situation in the national economy was eased to a certain extent.

As we see it now, the execution of the First 5-Year Plan was basically a success. Although there were ups and downs between the years, generally speaking it was smooth going. In those 5 years, the growth rates (compared with the preceding year) were as follows:

Year	Gross output value of industry & agriculture	Agriculture Industry	Light industry	Heavy Industry
	(Percent)			
1953	14.4	3.1	26.7	36.9
1954	9.5	3.4	14.3	19.8
1955	6.6	7.6	identical	14.5
1956	16.5	5.0	19.7	39.7
1957	8.9	3.6	5.7	18.4

Note: No increase in light industry in 1955 principally because in the two precedirs, natural disasters had caused poor harvests in agriculture.

Because of the different growth rates between agriculture, light industry and, heavy industry, the ratios they

occupied in the net output value of industry and agriculture began to show obvious changes. The following were

the ratios of the net output value computed on the basis of the current year's prices:

Year	Agriculture	Light Industry	Heavy Industry
	(Percent)		
1949	84.5	11.0	4.5
1952	74.7	14.5	10.8
1957	62.3	18.6	19.1

The above figures have fully illustrated that in the first eight years after the founding of the PRC, our country's national economy had achieved a rather great development. The growth speed was specially high during the three-year recovery period but this basically belonged to the nature of recovery. Industrial and agricultural production in 1952 was only slightly higher than the level during the period (1936) prior to the anti-Japanese war. The development in the First 5-Year Plan period was largely the fruit of the large-scale economic construction. In it the growth speed of agricultural production clearly dropped and the principal causes may be attributed partly to taking too much from the accumulations of agriculture to speed up the development of heavy industry and to the socialist transformation demands on agriculture being too severe.

In the First 5-Year Plan period, in addition to carrying out a large-scale economic construction, we basically completed the socialist transformation of agriculture, the handicraft industry and capitalist commerce. At the time of the founding of New China, individual economy (including individual farming and individual industry and commerce) occupied a ratio of roughly 90 percent in the entire national economy of which individual agriculture occupied a ratio of 84.5 percent. In industry, due to the bureaucratic enterprises having suffered from serious wreckage and after their transformation into socialist state-run enterprises, they occupied only 26.2 percent of the entire industrial output value, public-private jointly run industry (in the enterprises a portion was bureaucratic capital and a portion, national capital, and after confiscation of the bureaucratic capital they became public-private jointly run enterprises) occupied a ratio of 1.6 percent, industry of cooperative societies, 0.4 percent, private industry, 48.7 percent, and individual handicraft industry were still in a superior position numerically. Without counting the individual handicraft industry, socialist industry occupied 34.7 percent; public-private jointly run industry, 2 percent; and private capitalist industry, 63.3 percent. In retail commerce, in 1950 socialist commerce occupied 15 percent while private commerce, 85 percent. But in the wholesale business, state-run commerce

and supply and marketing cooperatives held in their hands the bulk of commodity resources and occupied the leading position in the markets.

In 1952, of the country's national income, socialist state-run economy accounted for 19.1 percent, cooperative economy, 1.5 percent; public-private jointly run economy, 0.7 percent; capitalist economy, 6.9 percent; and individual economy, still 71.8 percent. But in the gross industrial output value, (not including individual handicraft industry), socialist industry already accounted for 56.5 percent; public-private jointly run industry, 5 percent; while private industry, 39.0 percent, of which the portion occupied by processing and placing of orders was 21.9 percent and self-production and self-marketing only 17.1 percent. Wholesale commerce was basically grasped in the hands of the state while in the retail trade the socialist portion was 42.6 percent; cooperative commerce, 0.2 percent and private commerce, 57.2 percent. At that time, for the sake of reducing unemployment we intentionally slowed down the progress of state-run retail commerce. This was a sagacious policy.

In the Soviet Union, after the success of the October Revolution, the state immediately confiscated the entire capitalist industry, but because the workers were not adept in the management tremendous damage was caused to the productive forces. After the failure of the enforcement of "wartime communism," Lenin resolutely decided to change over to the new economic policy, resumed the relations between commodity and money, and called on the Communist Party members to study business and commerce. Our country avoided the lesson of the Soviet Union's failure, and the original capitalist industry not only remained somewhat unscathed but also during the period before the whole industry became public-private operated its output value increased by nearly 100 percent. Before the whole industry or trade became public-private operated and due to the coexistence of several economic constituents there was still free competition among them under the leadership of the state-run economy and basically speaking it was still a market commodity economy. As a result, the weak points of the Soviet form of planned economy were not openly exposed. As we look back now, the market during that period was rather active and prosperous. The experiences of the combination at that time of planned economy and commodity economy still worth our further study.

The following is a tabulation of the ratios occupied by the various economic constituents in the national economy in the First 5-Year Plan period.

Year	State-run Economy	Cooperative Economy	Public-Private Jointly run Economy	Capitalist Economy	Individual Economy
	(Percent)				
1953	23.9	2.5	0.9	7.9	64.8
1954	26.8	4.8	2.1	5.3	61.0
1955	28.0	14.1	2.8	3.5	51.6

Year	State-run Economy	Cooperative Economy	Public-Private Jointly run Economy	Capitalist Economy	Individual Economy
(Percent) (Continued)					
1956	32.2	53.4	7.3	7.1	
1957	33.2	56.4	7.6	2.8	

In modern industry (excluding handicraft industry), the changes in the ratios occupied in the industrial gross output value by state-run industry, national capitalist industry and capitalist industry were as follows:

Year	State-run Industry	National Capitalist Industry		Capitalist Industry (self-production & self-marketing)
		of which:		
		Public-private Jointly run	Processing & Placing of orders	
		(Percent)		
1952	56.0	5.0	21.9	17.1
1953	57.5	5.7	22.8	14.0
1954	62.8	12.3	19.6	5.3
1955	67.7	16.1	13.2	3.0
1956	67.5	32.5		

According to the foregoing data, in the First 5-Year Plan period, socialist construction in our country basically proceeded in firm and stable steps. Although in 1953 and 1956 the steps were quickened somewhat unnecessarily yet they were soon curtailed but socialist transformation seemed to have taken place too early; particularly after 1955 hastened steps were taken and although in form the populace did so at their own volition in reality they were due to political pressure. The number of peasant households taking part in the agricultural production cooperative societies was only 2 percent in 1954 and went up to 14.2 percent in 1953. They were all elementary cooperatives. In 1956 the number went up to 96.3 percent of which 87.8 percent were higher cooperatives. In the elementary cooperatives, aside from distribution according to work, there were also land dividends and this was of a socialist nature. The higher cooperatives abolished the land dividends, adhered solely to distribution according to work, since land was then converted from ownership by the peasant households to public ownership by the cooperatives. In 1954 industry began to advocate public-private operation. The state invested in private industry to expand reproduction and the profits earned were distributed on a pro-rata basis between the public and private shares. Toward the end of 1955, under the influence of the high-tide of agricultural cooperativization, particularly after Comrade Mao Zedong's convening of the group discussion meeting of private industrial capitalists, the demand by the national industrial and commercial union for public-private joint operation of the whole industry became an irresistible public movement.

There was a difference between the whole industry or trade public-private operation and the original public-private operation. Many medium-sized and small enterprises could not be separately jointly operated, they must first go through reorganization while those that were too

backward had to be eliminated. Hence the State Council negotiated with the industrial and commercial union to convert the public-private run enterprises from separately earning dividends on their own to being given fixed share interest on the private shares held. The fixed interest rate was uniformly 5 percent which was not only lower than the share interest and dividends of the original public-private operated enterprises but also lower than the interest rate (usually at 8 percent) of the original private enterprises. This was carried out for 10 years and by the time of the "great cultural revolution" in 1966 payment of the fixed interest was stopped and the enterprises became completely state-run enterprises.

At that time, the wave of "whole industry or trade being public-private operated" spread over the whole country. Even small stores of only several persons and small workshops all asked to be public-private operated. Comrade Chen Yun recommended that these small stores and small workshops be allowed to hang the signboard of "public-private operated," but still must be responsible for their own profits and losses, being in reality still private enterprises. This recommendation was adopted by the State Council and was also accepted by the small enterprise owners. By doing this, the state's burden was greatly reduced. However, soon later in the three-year "great leap forward," following the high-tide of the emergence of the rural "people's communes," the great majority of the small industrial and commercial enterprises in the cities and towns were amalgamated. After an amalgamation, the production of these small industrial and commercial enterprises and the kinds and varieties of the products they handled or produced were greatly reduced. This could not meet the demands of people for the various kinds of small merchandize. This phenomenon dragged on until the 3d Plenary Session of the 11th CPC Central Committee in the 1970's and only then was it gradually changed. After the whole industry and trade

having become public-private operated, all the state-run and public-private operated enterprises were subjected to the unified responsibility for profits and losses and between the enterprises there was no free competition. they gradually lost their life force and vitality, and as a result development of the productive forces was impeded. this was obviously disadvantageous to the modernization of the national economy.

II. From the Three-Year "Great Leap Forward" to the 10 Year Disturbance Period

The year 1958 was the first year of the Second 5-Year Plan period of China. As a result in winter of the preceding year and spring of the current year Comrade Mao Zedong several times criticized Comrades Zhou Enlai and Chen Yun for their "errors of antiadventurism," the ideology of rash and hasty adventurism began to viciously expand in the minds of many of the leadership cadres. The recommendations of the "8th National People's Congress" on the Second 5-Year Plan were completely forgotten. The 1958 annual plan formulated by the State Planning Commission originally had been rather moderate and careful. Steel output originally had been planned to increase from 5.35 million tons in 1957 to 6.2 million tons and this was expected to be subsequently overfulfilled. In 1958 at the Chengdu Conference Comrade Mao Zedong advocated the "general line of building socialism quantitatively, quickly, solidly and economically, devoting the utmost efforts and striving hard to climb upward." At the second session of the NPC in May this general line was incorporated into the party's political report and was formally adopted. As a result, everybody's mind became increasingly heated. "Red Flag" magazine and other newspapers and publications all published articles urging catching up with Britain in seven years and then to catch up with the U.S.A. in another eight to ten years; high targets, blind commands, proneness to boasting and exaggeration and the "communist air" were continuously upgraded and increased in intensity. At the time, the Ministry of Metallurgy claimed that the 1958 steel output could exceed 7 million tons, and that with further efforts it was possible to reach 8 million tons. Comrade Mao Zedong was very pleased. He ordered the report discussed by various departments and localities. In the course of the discussions, the target was set increasingly higher and in August the Political Bureau called an enlarged conference in Beidaihe and decided that the steel output should double the 1957 figure; that is, reaching 10.7 million tons, and that corresponding increases should be made in the coal, power generation, and other targets. The conference was even more demanding regarding agriculture. According to reports from the various localities the total grain production volume was in excess of 500 billion kilograms. The conference decided to declare the year's target should be 350 billion kgs, exceeding by nearly 100 percent the 1957 output of 185.0 billion kilograms (old calibre; not including peas and beans). All these figures were duly published in the papers, compelling the various localities to fulfil these targets. This caused the

economic work to fall in a state of confusion in the subsequent months. The whole country plunged into the fervor of steel production, knowing well that all this was a fake but daring not to resist for fear of being labelled as "rightist and conservative."

Concurrently with the "great leap forward" in economic construction, the socialist transformation of agriculture also went through a "great leap forward." In the first ten day period of August, Comrade Mao Zedong, when inspecting the provinces of Hebei, Henan and Shandong, saw the existence of certain "people's communes." He pointed out, "After all, the people's communes are better." Following this, a meeting at Beidaihe adopted the "Resolution on the Problem of the Rural People's Communes." The various localities all rushed to the occasion and by October of the same year it was announced that people's communes had been established throughout the country. The papers and magazines all propagated the strong points of the people's communes being large in size and collective in nature. The results were the communes reported false production figures to the upper levels while the production teams tried every means to hide their real production figures and privately divided the output in an attempt to protect the fruits of their own work. In November and December of the same year, the 8th Session of the 6th CPC Central Committee adopted a "Resolution on Certain Problems of the People's Communes," which pointed out that the people's communes were still subjected to the collective ownership system, must carry out exchange at equal prices, and the principle of distribution according to work, although no mention was made of reducing the scope of the joint operation and abolition of the public mess hall. It was not until 1961 that it was determined to enforce the system of the three-level ownership by the commune, the production brigade and the production team with the production team as the basic accounting unit and the abolition of the public mess hall.

Early in 1959, the State Statistical Bureau, under pressure from an exaggerative atmosphere issued a communique stating that 1958 steel production was 11 million tons and grain production was 375 billion kilograms. On that basis the State Planning Commission fixed that the 1959 steel production demand should be 18 million tons and grain production, 525 billion kilograms. This unrealistic plan was refuted by facts. In the "great leap forward," the central authorities adopted the construction guideline of "taking steel as the leading link in industry" and "grain as the leading link in agriculture." In order to maintain the high target for steel, the whole country was mobilized to take part in the national steel refining mass campaign and erroneous slogans were called for the building of "small foreign masses" and "small native masses" ("small foreign masses" referred to building throughout the country tens of thousands of small blast furnaces and "small native masses" meant building of hundreds of thousands of native blast furnaces. Native iron produced from the "small native masses" mixed together iron fluid and coal residue, with an iron content less than that in iron ores and was wholly useless snaps).

In early April 1959, the State Planning Commission convened a meeting in Shanghai. At the meeting, the plan for steel production was reduced to 16.5 million tons, but this plan still could not be fulfilled. Comrade Mao Zedong asked Comrade Chen Yun to restudy it. Comrade Chen Yun proposed that the figure be reduced to 13 million tons. Premier Zhou Enlai also ordered the State Statistical Bureau to definitely reassess its statistical figures. The bureau reassessed the 1958 steel production at 8 million tons and grain production at 250 billion kilograms (later again reduced to 200 billion kilograms). In August of the year the State Statistical Bureau promulgated the rechecked statistical figures and Premier Zhou Enlai later reported to the NPC Standing Committee and put the 1959 planned production figure for steel as 12 million tons and grain, 275 billion kilograms. Following much struggle, the steel output that year exceeded 13 million tons but grain production, suffering from the people's Communes' movement, dropped to 175 billion kilograms, a reduction of 15 percent from 1958. In 1960, the majority of the peasants in the whole country did not have sufficient food from grain ration and could not eat to their fill while in the cities the grain ration was likewise reduced with the supply of subsidiary food and cotton cloth sadly lagging behind demand. The whole country thus entered into a "three-year difficult period."

In early 1960, under the conditions of the Lushan Conference in the preceding year erroneously adopting the struggle against the rightist inclination, it was still stipulated that steel production must reach the target of 18 million tons. For the sake of fulfilling this plan, yearly repairing and overhauling of equipment had to be forsaken and the equipment was in a serious dilapidated state. In order to ensure sufficient coal supply for the purposes of iron smelting and steel refining in the coal

mines, all attention was paid to coal picking, without any thought of tunnelling, repairs and overhauling of equipment and as a result the mines were in a poorly kept state. Because of the great reduction in agricultural production in the preceding year, during the year light industry likewise showed a downturn in production thus seriously affecting market supply. Only under the conditions of the continued expansion of the scale of capital construction was heavy industry able to have any development. Nevertheless, the serious imbalance in the development of the national economy could not continue for long and by 1961 and 1962 heavy industry likewise showed a large-scale downturn in production.

The following is a tabulation of the statistical materials concerning the rise and fall in the output value of the various departments of the national economy in the years of the Second 5-Year Plan period (as compared with the preceding year):

	Industrial & Agriculture Gross Output Value	Agriculture	Light Industry	Light Industry
Year	Percent			
1958	32.2	2.4	33.7	78.8
1959	19.5	-13.6	22.0	48.1
1960	5.4	-12.6	-9.8	25.9
1961	-30.9	-2.4	-21.6	-46.5
1962	-10.1	6.2	-8.4	-22.6

During the same period, changes in the output volume of the main products were as follows:

Year	Steel	Coal	Cloth	Grain	Cotton
	unit: million tons	unit: million Tons	unit: million meters	unit: billion kgs	unit: million tons
1958	8.00	270	646	200	1.969
1959	13.67	369	757	170	1.709
1960	18.66	307	545	143.5	1.063
1961	8.70	278	311	147.5	.800
1962	6.67	220	253	160.0	.750

In 1960, the mistakes of the "great leap forward" were fully exposed. In summer of the year Comrade Li Fuchun submitted a report to the central authorities recommending the "readjustment" of the national economy. Premier Zhou Enlai praised this report and added on six more Chinese characters, meaning "consolidating, filling in and elevating," to form an "eight-character guideline." This was approved by the central government at the end of September. Still in December of the year, the central government issued an order being "An Urgent Directive on the Problem of Maintaining Steel Production." The directive demanded the overfulfillment of the steel production target of 18 million tons, and caused a serious derangement of the steel refining equipment which resulted in the large slide downhill in

steel production in 1961. In 1961, the plan targets began to be adjusted downward, but even the reduced targets were still unable to be fulfilled. In the "great leap forward," due to power delegating and the running of two sets of accounts (aside from the state plan, the localities all have their own local plans, with level-by-level additions to plans), the various provinces, districts, counties and people's communes built several hundred thousand small plants. Only a very small portion of the plants showed some successes in operation but the great majority could not be completed in construction, resulting in engineering projects "half hanging in the air," but still not being given up. In January 1961, the central government began to withdraw some of the power overly delegated and advocated the scheme of the

"whole country being like one chessboard" and "only one set of accounts from top to bottom." At the same time, it formulated "regulations governing the work of rural people's communes" (the 60 articles). Thus the egalitarianism between the production teams and between the commune members was conquered. Later on, the public mess hall where people "could eat without paying any money" was abolished. Thus, the principles of "exchange at equal value" and "distribution according to work" were more seriously enforced.

From January to February 1962, the central government convened an enlarged work conference (that is the 7000 people big convention) and began the discussions on the errors of the "great leap forward." Following this, Comrade Liu Shaoqi ordered the central financial and economic subgroup headed by Comrade Chen Yun to submit a plan for further readjusting the national economy. In Comrade Chen Yun's opinion, due to the serious reduction in agricultural production, recovery of the 1957 level would require a period of five years and hence recommended the decision to designate the period of five years from 1961 to 1965 as the recovery period. Based on this spirit, the central financial and economic subgroup formulated the readjustment plan and urged that at one stroke the 100,000 small blast furnaces be demolished, thus saving sufficient coal for the normal operation of the large blast furnaces. The complete abolition of the "half-in-the-air" projects and of the "small native masses" which had already stopped work was also ordered. Furthermore, the return to the rural villages in 1962 of some 10 million staff members and workers was ordained. The successful completion of these tasks managed to retrieve the urban and rural economy from serious difficulties and enabled them to resume normal operations.

In September of that year, the central authorities called a work conference in Beidaihe. At the meeting, Comrade Mao Zedong criticized certain comrades as having over-estimated the difficulties. Hence, when the State Planning Commission deliberated on the formulation of the 1963 plan, there were different views on whether or not there was any need for readjustment in 1963. When this was brought to the State Council for deliberation, Premier Zhou Enlai affirmed that readjustment was still needed, that readjustment should last until 1965 and that the guideline of "recovering in five years" be continued and firmly insisted upon. The facts proved that his decision was entirely important. By 1965 agricultural production had recovered only to slightly above 1957, while steel production had slightly exceeded the 1962 target (12 million tons) originally fixed in the Second 5-Year Plan, but was still lower than 1960 by more than 6 million tons.

Finance in the three-year period of the "great leap forward" showed a false surplus in lieu of an actual deficit. At the time, a large surplus was estimated but afterwards it was found that there had been a deficit of about 17 billion yuan. As a result, the volume of money

in circulation sharply increased from 5.28 billion yuan as of the end of 1957 to 12.57 billion yuan at the end of 1961. In four years an increase of 140 percent was made and with the fall in production there was an obvious currency inflation and maintaining commodity stability was difficult. In order to stabilize the commodity prices, the state had to impose limited supply on 18 categories of major consumer goods and would not allow their prices to rise. Consequently, the surplus money flowed to the country fair markets where the prices were 700 to 800 percent higher than the state's planned prices. Meanwhile the quantity of the consumer goods available for supply by the state was exceedingly low. Residents in the cities were allowed to purchase only one kilogram of pork each, while each year their supply of cotton cloth was limited to 2 meters per resident a year, while the peasants could only purchase only 1 meter of cotton cloth each per year. Such low rationing obviously made it difficult for people to be warmly dressed or to eat to their fill. Aside from rationing the supply of commodities, the state put on sale high-priced sweets and snacks and opened up high-class restaurants where the food prices were 300 to 400 percent higher than the planned prices. With the exception of Beijing, all cities and towns were allowed to have country fair markets as a measure to supplement state-run commerce. Vis-a-vis the peasants the state adopted the policy of "high against high" and "low against low" prices. Purchase of agricultural products at parity prices would be matched by supply of industrial products at parity prices while purchase of agricultural products at high prices would be matched by supply of industrial products at high prices. From 1961 to 1964, the state obtained a returned flow of some 5 billion yuan to the treasury through the sale of high-priced commodities. By 1964 yearend, the volume of money in circulation dropped to 8 billion yuan, and beginning from 1963 prices in country fair trade dropped one after another, the state's high-priced commodities likewise dropped in price and subsequently were put in supply at parity prices. Taking the 1957 retail price index at 100 percent, the index rose to 126 percent in 1962 and dropped back to 111 percent in 1965. This was another triumph obtained in stabilizing commodity prices subsequent to march 1950.

The three-year "great leap forward" was a painful lesson in the history of New China. The proposition of the Second 5-Year Plan originally called for capital construction investments in the five years at 100 billion yuan. In the three years from 1958 to 1960 the investments already amounted to 100.6 billion yuan (of which 1960 alone accounted for 38.9 billion yuan and the accumulated rate was 39.6 percent). In 1961 the investment was forced back to 12.7 billion yuan while in 1962 it further dropped to 7.13 billion yuan. Since then it gradually climbed up again: in 1963, it was 9.8 billion yuan; 1964, 14.41 billion yuan; and in 1965, 17.96 billion yuan. Yet, inspite of the declining construction scale, the growth in the gross output value of industry and agriculture continued to increase rapidly. The following is a tabulation of the relevant statistics for the 4 years of 1963 to 1966 (comparison with the preceding year):

Year	Gross output value, industry & agriculture	Agriculture Industry	Light Industry	Heavy Industry
	(Percent)			
1963	9.5	11.6	2.3	13.8
1964	17.5	13.5	17.8	21.0
1965	20.4	8.3	47.7	10.2
1966	173.0	8.6	14.5	27.5

From 1957 to 1963, there were great changes in the proportionate relationship between agriculture, light industry and heavy industry in our country, the changes being from serious imbalance to being relatively rational. Taking the gross output value of industry and agriculture as 100 percent, the ratios of agriculture, light industry and heavy industry were as follows:

Year	Agriculture	Light Industry	Heavy Industry
	(Percent)		
1957	43.3	31.2	25.5
1960	21.8	26.1	52.1
1962	38.8	28.9	32.3
1965	37.3	32.3	30.4

Under the conditions of notable results having been achieved in readjusting the national economy and the national economy beginning to be thriving, at the 1st Session of the 3d National People's Congress in 1964, Premier Zhou Enlai solemnly announced that we must "strive within a relatively short historical period to build our country into a powerful socialist country possessing

modern agriculture, modern industry, modern national defence and modern science and technology and to catch up with and surpass the world's advanced level." Unexpectedly on March 16, 1966 the so-called "May 16th Circular" announced the commencement of the "great cultural revolution." The 1967 annual plan formulated by the State Planning Commission had no way to be forwarded downward. In 1968, due to the disturbances throughout the country even the annual plan could not be formulated. At the time Premier Zhou Enlai personally laid hold of certain working personnel in planning and formed a leadership small group on economic work to handle the daily work in economic operations thus avoiding the national economy from collapse. During the "all-round civil war" from 1967 to 1968, production in industry and agriculture, particularly heavy industry, showed a drastic fall. In 1969 following the opposition by people of the whole country, the civil war between the public organizations was stopped and the national economy made certain recovery. In 1974 it again met the disruption of the "criticizing Lin and criticizing Confucius" campaign. Following is a tabulation of the statistics (compared with the preceding year) during the period of the 10-year disturbances:

Year	Gross output value, industry & agriculture	Agriculture	Light Industry	Heavy Industry
	(Percent)			
1967	-9.6	1.6	-7.1	-20.0
1968	-4.2	-2.5	-4.9	-5.1
1969	23.8	1.1	25.2	43.9
1970	25.7	11.5	18.1	42.3
1971	12.2	3.0	7.8	23.0
1972	4.5	-1.1	6.4	7.3
1973	9.2	8.4	10.7	8.7
1974	1.4	3.5	2.9	-1.2
1975	11.9	3.1	13.4	17.2
1976	1.7	-0.4	3.4	1.7

For several years after 1969, the high speed growth in industrial production, aside from the factor of being a recovery nature, was also due to Lin Biao's blind directions and command, particularly his hasty adventurism in undertaking the large and small "three-line" war industry construction. It over-extended the scale of capital construction and caused over-heating of the economy. In 1971 Lin Biao's dark scheme of seizing

power went bankrupt and forthwith Premier Zhou Enlai proposed reducing the capital construction scale and the target for production of the heavy industry. Unfortunately because of the "more and faster" venturesome ideology still dominated the scene, little effects were achieved. From 1970 to before the 3d Plenary Session of the 11th CPC Central Committee in 1978, the accumulation rate in national income had all along remained at

over 30 percent. As for the industrial production in these several years, in 1974 it stopped rising because of the turmoil caused by the "criticize Lin Biao and criticize Confucius" campaign started by the "gang of four;" in 1975 Comrade Deng Xiaoping acted for Premier Zhou Enlai, who was convalescing after illness, in taking charge of the affairs, advocated the rectification guideline and issued the call that "production must be made rising," and industrial production speedily rose. In 1976, the "gang of four" again started a campaign to "criticize Deng and attack the trend of the rightists to seek reversing of past court verdicts and severely criticized the 'theory of productive forces.'" Industrial production thus again stopped its advancement. In January 1976 Premier Zhou Enlai passed away. On July 28, the Tangshan earthquake occurred, in September Comrade Zedong died, and the whole country fell into confusion. The "gang of four" then took advantage of the opportunity and seized power. On October 26, Hua Guofeng, Ye Jianying and Li Xiannien arose and crushed the "gang of four." Only then was the national economy retrieved from the verge of collapse.

During the 10 years of disturbances, the basic features of the development of our country's economy were "high accumulation, high speed, low benefits and low consumption." After 1970, the capital construction scale was overly large. At the same time, capital construction tended to the side of heavy industry. Hence the proportionate relationships which for the past six years had just recovered normalcy were once again seriously disrupted. Up to 1978 this trend had not yet been rectified. Following is a tabulation of the proportionate relationships between agriculture, light industry and heavy industry (taking gross output value of industry and agriculture as 100):

Year	Agriculture	Light Industry	Heavy Industry
	(Percent)		
1966	35.9	31.4	32.7
1976	27.2	32.5	40.3
1978	24.8	32.4	42.8

Due to the disarray in production order, economic effects dropped noticeably. In state-run enterprises, the realized tax and profit per every 100 yuan of capital was 35.7 yuan in 1966 but dropped to 20.1 yuan in 1976. The realized tax and profit on every 100 yuan of net value of fixed assets was 46.7 yuan in 1966 but dropped to 28.8 yuan in 1976. The realized profit on every 100 yuan of industrial gross output value was 24.9 yuan in 1966 but dropped to 11.8 yuan in 1976. Concurrently, although the rise in production was comparatively rapid, the people's standard of living dropped or seldom showed a rising trend. In 1976, the average grain consumption per person was 190.5 kilograms but was still slightly lower than the level (197.5 kilograms) in 1952, and was 14 kilograms lower than 1956 (294.5 kilograms) which was the highest on record. The per capita consumption of cotton cloth in 1976 was 7.87 meters and compared with

the highest record of 9.73 meters which was in 1959, it was lower by 1.86 meters. In comparison with the growth speed in production, the rise in the people's standard of living was far too small. One of the objective causes for such a phenomenon was that in the 10 years of disturbances there was a great laxity in birth rate control. From 1967 to 1971 the annual growth rate in population was as high as 2.8 percent, bringing a net increase of 190 million in the population in 10 years.

The largest damage caused by the "Great Cultural Revolution" was the wrecking of culture. In the first five years, nearly all the colleges and senior high schools stopped classes. The ensuing five years were also in a paralyzed state. This important damage was irreparable. The extreme confused social phenomena and prevalence of "fighting, extracting, and robbing" caused enormous damage to the social atmosphere, and up to now, has not been fully extinguished.

III. Thriving Economy After the 3d Plenary Session of 11th CPC Central Committee

The 3d Plenary session of the 11th CPC Central Committee convened by the Party in December 1978, opened up a new era in our country's economic construction.

The 3d Plenary Session, taking the ideological line of seeking truth from facts, formulated a series of guidelines and policies on readjustment, restructuring, and opening up. Following this, at the central work conference held in April 1979, the eight-character guideline of readjustment, consolidating, filling out and raising standards, was adopted. The important points were laid on readjusting and restructuring (including opening up). In view of the fact that in the "great leap forward" and the "10 years of disturbances" the proportionate relations in the national economy were seriously deranged, hence in the first few years, readjustment was placed ahead of restructuring so as to readjust the proportionate relations of the national economy and pave the road for restructuring or reform. In the readjustment, first of all the scale of capital construction had to be cut down, the proportionate relations between accumulation and consumption changed, and the proportionate relations between agriculture, light industry, and heavy industry readjusted.

On the side of restructuring the economic management structure, the 3d Plenary Session of the 11th CPC Central Committee decided to expand the decision-making power of the localities and enterprises. The localities were allowed to retain a portion of taxes and enterprises, a portion of the profits, for their use in expanded reproduction. In the past, the great proportion of fixed assets investment were incorporated into the state plan, and investments in construction by the localities and enterprises had to have the sanction of the central government. For several years afterwards, tax and profit-retention respectively by the localities and the enterprises were gradually expanded, and the latter could of their own accord, invest in construction outside the

plan. This greatly enhanced the enthusiasm of the localities and enterprises for expanded reproduction. By 1982, the investments inside the budget and those outside had become virtually identical in amount. From then on constructions outside the plan exceeded those inside while the state also encouraged the enterprises to invest in renovation and transformation and improvement of their equipment; according to estimation of the fixed assets (including capital construction, renovation, and transformation), investments outside the plan occupied an even larger proportion. The abovementioned restructuring was greatly beneficial to facilitating the development of the productive forces but was contrary to the state's plan of cutting down the investment scale. In 1979 the plan to cut down investments was not fulfilled. On the contrary there was a slight increase over the preceding year. In 1980 cutting down investments was continued and investments inside the plan were brought under control, but those outside the plan greatly increased and the gross investment volume still showed a slight increase. In these two years, because of raising the purchase prices of agricultural products and raising the pay of the staff members and workers, both of which exceeded the state plan, enormous deficits ensued in the financial budget. In 1979 the red figures amounted to 17.06 billion yuan while in 1980, they still amounted to 12.75 billion yuan. In the first quarter of 1981, the state council decided to freeze the bank deposits. This caused fixed assets investments in the year by units owned by the whole people to drop by 7.84 billion yuan in comparison with the preceding year, basically fulfilling the state plan of cutting down investments. The sudden brake on credits and loans caused industrial production in the first quarter of the year to show a decrease. Machinery products and construction materials showed the largest decrease in production, while light industry still managed to show a slight increase. In the second quarter, credits and loans began to loosen. This enabled industrial production to recover and rise slowly. For the year as a whole there was an increase over the

preceding year of 4.5 percent (of which light industry increased by 14.3 percent, while heavy industry decreased by 4.6 percent).

Still for several years afterwards, the state each year required reduction of the construction scale. In 1982 and 1983 although the fixed assets investment surpassed the state plan but the extent of the increase was not great. For the five years between 1979 and 1983, as a whole the gross volume of the fixed assets investments of units under the system of ownership by the whole people only increased by slightly over 28 billion yuan averaging over 5 billion yuan a year; this basically met the readjustment requirements. In 1981, 1982 and 1983, the accumulation rate of the expended volume of the national income all dropped to below 30 percent (respectively being 28.3 percent, 28.8 percent and 29.7 percent) and this also basically met the readjustment target. Because of the scaling down of the construction scale, the supply of the means of production was relatively moderated. This rectified the past abnormal phenomenon of heavy industry going ahead alone first with light industry and agriculture trailing behind. In these years, due to the enforcement of the system of contracted responsibilities on the household basis and the high purchase prices of agricultural products, the growth in agricultural production was especially fast where as for the light industry, its speed of development was also faster than that of heavy industry because the investments outside the plan were mostly oriented to the market, and because production increase in agriculture had increased the supply of raw materials. Thus, in 1983 there was a rather rational readjustment of the relations between agriculture, light industry and heavy industry.

The tables below show the statistical figures of the growth speed, proportionate relations and construction scale of industrial and agricultural production in these years:

Growth Speed of Industrial and Agricultural Production in Comparison With the Preceding Year

Year	Gross output value of industry & agriculture	Agriculture	Light industry	Heavy industry
	(Percent)			
1979	8.5	7.5	9.9	8.0
1980	7.5	1.4	19.0	1.9
1981	4.6	6.4	14.3	-4.6
1982	8.8	11.3	5.8	9.9
1983	10.2	7.8	9.3	13.1

Proportionate Relationship of Agriculture, Light Industry and Heavy Industry

Year	Agriculture	Light Industry	Heavy Industry
	(Percent)		
1978	24.8	32.4	42.8
1979	26.6	32.1	41.3
1980	27.2	34.3	38.5
1981	28.8	36.7	34.5

Proportionate Relationship of Agriculture, Light Industry and Heavy Industry (Continued)

Year	Agriculture	Light Industry	Heavy Industry
1982	29.9	35.2	34.9
1983	29.9	34.0	36.1

In these several years we did much in restructuring and opening up work and achieved quite noticeable results. But restructuring is different from readjusting. It involves relatively more complicated problems, and in the beginning a set of integrated theory, guideline and plan was lacking. In 1978, Sichuan and Anhui carried out piloting points of the responsibility system in agricultural production, the enthusiasm for production on the part of the peasants was greatly enhanced and this attracted the attention of the central authorities. But because of the idea of the "large and public nature" of the people's communes could not be changed readily, it was even up to the time of the convention in 1980 of the conference of the Party first secretaries of the provinces, autonomous regions and municipalities that this measure was still involved in intense disputes. Only after two to three years before the testimony of the facts did the viewpoints become unanimously favorable. The enforcement in the rural areas of the system of contracted responsibilities with the household as the basis was the first important reform in agriculture. Before 1984, the major point in the reform of the economic structure in our country was in reality laid on the side of agriculture. This reform broke the protected state of stagnation in agricultural production and played an important role in the readjustment of the whole national economy and reform of the structure. Seen from today, it was extremely correct that first of all we grasped reform of agriculture.

Before that time, people in the theoretical circles began to advocate that socialist countries should develop commodity economy and should take combination of planned regulation with regulation by market mechanism as the direction of reform. This viewpoint was absorbed in 1980 in the "Initial Views on Reform of the Structure" drafted by the Office on Structural Reform of the State Council and was also brought up for discussion at the meeting of the first secretaries of the provinces and municipalities. Although it received the praise of certain people, just the same, because of the complex nature of the problem, the central government did not arrive at a firm decision thereon. Nevertheless, in actual practices, the State Council gave special attention to the role of the market and gradually opened up the prices of certain minor commodities; while as for those means of production the supply of which lagged behind demand the State Council sanctioned that, in addition to planned distribution, means of production needed in production and construction outside the plan could be purchased and sold at negotiated prices. Thus, commodity economy and regulation by market mechanism in reality were being continuously expanded.

Simultaneous with reform, we carried out the policy of opening up to the outside world. In 1978, whole set and

machinery equipment for 22 large enterprises were purchased from abroad. In 1980, we began the establishment of the four special economic zones of Shenzhen, Zhuhai, Santou and Xiamen; prescribed the enforcement of a special policy for the two provinces of Guangdong and Fujian; several years later, we continued to declare the Zhujiang delta, Chang Jiang delta, southern Fujian region, Jiaodong peninsula, and Liaodong peninsula, as regions opened up to the outside world; and 14 (now increased to 30) cities and towns including Shanghai as being opened up to the outside world. Over the past several years tens of thousands of "enterprises of three capital sources" were organized, and many plants undertook processing work on materials provided by the customers; the results achieved were generally satisfactory. Unfortunately, because we do not possess an integrated system of laws and regulations and a developed market mechanism, and because of nonseparation of government from enterprise functions and management being subjected to many heads of control, the work of introducing foreign capital has met with many unnecessary difficulties. These problems will still have to be gradually solved following the deepening of reform of the economic structure internally in the country.

The 3d Plenary Session of the 12th CPC Central Committee held in October 1984 adopted the "decision on reform of the economic structure" and pointed out that the readjustment task had basically been completed, that from then on the steps in reform should be quickened; and that reform of the whole economic structure with the cities and towns as the major points, should be carried out. The decision pointed out that in "restructuring the planned management structure; first of all the traditional concept of the antipathy between planned economy and commodity economy should be broken, and that it should be made clear that socialist planned economy must consciously follow and employ the laws of value, being a planned economy on the basis of the public ownership system." It further pointed out: "price is the most effective measure in regulation, rational prices are important conditions for ensuring the national economy to be lively and not disorderly, and reform of the price structure is the crux of the success or failure of the entire economic structure."

Furthermore, the decision pointed out: "The more the economy is invigorated, the greater attention should be paid to macroeconomic regulation; and the more adept and timely should be the grasping, on the basis of the economic trend, of the employment of the economic levers of price, taxation credits and loans and so forth; to be beneficial to regulating the gross volume of social supply and demand, and the important relationships between accumulation and consumption, to regulating

the direction of flow of financial power, material power and manpower, regulating the geographical distribution of the industrial structure and productive forces, regulating market supply and demand, regulating external economic exchanges, and so on."

In accordance with the decision of the 3d Plenary Session of the 12th CPC Central Committee, in the first half year of 1985, the state council decided to decontrol the prices of urban subsidiary foods and obtained good results. The only regret was that due to our lack of experience in macroeconomic regulation directed in the decision, beginning in the fourth quarter of 1984, the credits and loans of banks went out of control. Currency inflation began to occur. As a result, the rise in commodity prices in 1985 exceeded the original plan. From the second half of the year, the government was forced to enforce the policy of limiting prices, resulting in many commodities prices, which had been decontrolled and put in order, to become twisted again.

At the time of the agitation for reform of the overall structure in the second half year of 1984, the state council decided to grant the banks the decision-making power in credits and loans. The method fixed by the relevant departments was to take the gross amount of loans in 1984 as the limit of loans in 1985 and the banks could autonomously operate within this limit. But we failed to take into consideration the fact that the banks had been accustomed to the practice of "everybody eating from the same big pot," and did not possess experience in administering credits and loans autonomously. In order to prepare the ground for enlarging the credit and loan limit for 1985, the banks began in October 1984, to grant freely loans for fixed assets with the result of greatly increasing the amount of issuance of banknotes. In the fourth quarter of that year the amount of issuance of banknotes was larger by 100 percent over the same period of the preceding year. For the year as a whole, the gross volume of money in circulation at the end of the year increased by 49.5 percent over the yearend of the preceding year. Naturally, this heavily affected the stability of commodity prices thereafter.

Concurrently, the state council decided that the gross volume of the salaries and wages of the staff members and workers of an enterprise should be linked with, and move in concert with, the economic benefits of the enterprise. When deliberating on this measure the relevant departments proposed that the gross amount of the salaries and wages in 1984 be taken as the base figure for the gross volume of salaries and wages in 1985, and that the salaries and wages of the staff members and workers of the enterprise would be linked with and move in concert with the economic benefits, making use of this base figure. But we failed to have considered that the state-run enterprises had been accustomed to the practice of "everybody eating from the same big pot" and had not yet reached the point of being solely responsible for their own profits and losses. Soon after this measure was announced, the enterprises forthwith increased the wages and granted awards in the attempt to enlarge the

base figure of the salaries and wages for the year. The result was the growth of the consumption fund was out of control. The above-mentioned two instances of the loss of control caused the extent of the rise in commodity prices in 1985 to exceed the psychological ability to bear on the part of the populace. A portion of the people expressed sentiments of discontent.

In order to stabilize commodity prices, the State Council, in the second half year of 1985, again decided to rfix price limits on many commodities the prices of which had been decontrolled, and thus controlled the risen in the index of retail sales prices not to exceed 8.8 percent throughout the year. Since the rise was confined principally to subsidiary food prices in the cities and towns, the rural areas were not affected and since; the small cities and towns originally depended on market supply, the rise in commodity prices was not large; only in the large- and medium-sized cities and towns was the scale in the rise of commodity prices relatively large, around 14 percent. With the various cities and towns separately giving difficult subsidies for the rise in commodity prices in accordance with their different degrees of the rise in the prices, the actual standard of living of the great majority of staff members and workers in the country was obviously on a rising trend.

Because of the sudden inflation in fixed assets investments and in the consumption funds, social gross demand surpassed social gross supply and this caused industrial production in the first half year of 1985 to show a super high-speed growth. The gross value of industrial output in this first half year actually showed a growth rate of higher than that of the same period in the preceding year by 23.2 percent. During this year the State Council convened four meetings of the heads of the provinces and autonomous regions asking them to slow down the scale of their capital construction. But the "over-heated" ideology of the localities could hardly be twisted around. Thus, while the upper level controlled and fixed the credit and loan limits, the lower levels used the credit and loan funds within the prescribed limits on investments in fixed assets and left the two gaps of enterprise circulating funds and particularly purchases of agricultural products to be filled up. This caused the State Council, for the sake of enlivening market circulation, to have to increase the issuance of banknotes. As a result of the State Council adopting the dual policy of tightening finance and credits and loans, the growth rate of industrial production in the second half of the year gradually dropped to 10-12 percent but for the year as a whole the growth was still 18 percent (including industries run by the rural villages and units below the rural villages level the growth was actually 21.4 percent) which was still a super high speed.

In 1986, the State Council continued to carry out the dual policy in the first half year. In the 1st quarter of the year the extent of the growth in industrial production dropped to 4.4 percent but for the year as a whole the growth was still 8.8 percent higher than the preceding year. Many of the localities and a portion of the theorists

lamented the "downward slide" in production and demanded easing up the granting of credit and loans and the issuance of more banknotes. Thus, the Keynesian concept of "employing an adequate extent of currency inflation to facilitate industrial development" spread rather extensively and at the time this influenced the policy making of the government.

As a result of the adoption of limiting prices, the extent of the rise in commodity prices in 1986 and 1987 was respectively controlled at 6 percent and 7.3 percent. This temporarily concealed a portion of the damages of currency inflation. But the twistings and irregularities in commodity prices (such as prohibiting the increase in prices when they should have increased and the occurrence of black market prices in many commodities) were getting increasingly serious. Certain enterprises and units resorted to various improper measures to raise prices and thus caused confusion in the market order. The thoughts of theorists at the time were also a big confusion. Some people, on seeing the growing difficulties in putting prices to order, advocated getting around price reform and resorting to measures such as contracting to "deepen the reform," while other people, seeing that on the basis of the twisted prices there would be no way for the enterprises to be solely responsible for their own profits and losses or to complete freely, advocated going around the control of currency inflation and decontrolling the prices.

In order to timely rectify the confusing market situation, the 3d Plenary Session of the 13th CPC Central Committee convened in September 1988 advocated the guideline of "improving the economic environment, rectifying the economic order and all-round deepening the reform," and fixed that the major points of the reform and construction for the next two years be outstandingly shifted to improving the environment and rectifying the order. This in reality was making readjustment for the second time. Undoubtedly this guideline was a correct one and was also necessary. But it was three years late and this greatly increased the difficulties of the readjustment. In 1988, the extent of the inflation in investments in fixed assets, particularly the extent of the currency inflation, far exceeded the past several years. Although retail sales price index was kept under strict control, it still rose by 18.5 percent. This had not been seen for many years before. Although in the fourth quarter of the year issuance of banknotes began to be kept under control, the extent of the growth rate in industrial production was still in the neighborhood of 17.7 percent, being still a super high speed. It caused an extremely urgent state in the supply of energy and raw materials and in railway transport, thus bringing about serious difficulties for industrial production in 1989.

At the moment the thoughts of the theoretical circles have again fallen into confusion. The timely clearing of this confusion in thoughts and ideologies has an important significance in pushing the improvement and rectification work and creating the conditions for deepening

the reform. The confusion in these thoughts and ideas is principally shown in the following:

First, some people were concerned that tightening money supply would cause production's "landslide" as in the case of the first half year of 1986. In reality, in the first half year of 1986 industrial production did not slide downward; it recovered sharply in the second half year and for the year as a whole a growth rate of 8.8 percent was recorded over the super high speed of growth in 1985. At the time, certain plants did feel the pinch of shortage in circulating funds, but more importantly was the insufficient supply of energy and raw materials. In the recent year or more, many plants were forced to reduce production on account of the stoppage in power supply while at the same time some power plants stopped power generation because of the lack of coal. The extreme stringency in coal supply was not only due to the growth in coal production lagging behind demand but also because of the insufficient transportation power of the railroads. A difficulty of this kind obviously could not be settled by the issuance of more banknotes. The only way out was to readjust the industrial structure and not currency inflation.

Second, in order to make the improvement and rectification produce quick results, the State Planning Commission formulated several tens of emergency measures, the majority of which consisted of the use of administrative measures to replace the economic measures and the use of direct control to replace indirect control. Based on this, some people believed that the 3d Plenary Session of the 12th CPC Central Committee had taken the wrong general direction in determining the structural reform and that we had gone on the old road of 10 years ago. This was another even larger misunderstanding. The general direction taken by the 3d Plenary Session of the 12th CPC Central Committee in determining the structural reform was entirely correct. The problem laid in that at the time of our liberalizing administrative management and direct control, we had not timely set up a macroeconomic adjustment and control structure to utilize economic measures and enforce indirect control. In reality, if we want to establish a new order of the socialist commodity economy, it is necessary to control tightly and well on the macroeconomic side and only then can we loosen up and invigorate on the microeconomic side. In a commodity economy, the macroeconomic adjustment and controlling structures are first, finance and second, the banks. Beginning in 1985, our annual plans have talked about adopting the "double-tightening" policy regarding these two adjusting and regulating tools but in reality the policy enforced was a "double liberating" one. In finance there was an overuse of reducing taxes and concession of interests to raise the enthusiasm of the enterprises with the financial deficits yearly increasing while on the part of the banks, they resorted to liberalizing the granting of loans for fixed assets which in effect was like adding oil to the flames concerning the over-heated economy. At present, we are still not adept in the utilization of this intricate mechanism of the banking institutions. Under the conditions of

the serious imbalance in macroeconomic control, to enforce indirect control principally by means of economic measures, there is no way out except to temporarily resort to the old methods of control. Simultaneously with using the old method of effecting macroeconomic control, we must strive to learn the new method of carrying out macroeconomic control.

Third, some people are doubtful that it is at all possible to decontrol prices. We use the method of decontrolling prices and putting them in order to bring about the all-round deepening of the reform of the structure and this is obviously correct. But the prerequisite of decontrol of prices is to stop currency inflation. Under the conditions of the daily worsening of currency inflation, in the coming years we must fiercely cut down the scale of construction, control social gross demand and restore the equilibrium of gross demand and gross supply. Only by so doing will it be possible to curb currency inflation to prepare the conditions for decontrolling and smoothing out the prices and also pave the road to further deepening the reform.

Fourth, there are still some people who, in seeing the recurrence for several times of the phenomenon of the over-heated economy in the 40 years since the founding of the PRC, have come to believe that shortage economy is something that socialism cannot possibly avoid. It is definitely true that socialist economy does easily breed the phenomenon of overheating but decidedly it is not unavoidable. Regarding the macroeconomic loss of control caused by the three years of the "great leap forward" toward the end of the 1950's, we managed to overcome it after five years of readjustment early in the 1960's, the imbalance in proportions appearing in the period of the 10 years' disturbances was likewise overcome by the five years of readjustment from 1979 to 1983. All these illustrate that if only we can respect objective laws and advance in firm and stable steps, errors can be avoided.

Editor's Note: (This is part of a special article prepared by the author for the 1989 edition of the *China Economic Yearbook*. Herein we have made large deletions of the original article.)

COMMERCE

Building a Patent Rights Accounting System

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[Text] In face of the challenge posed by the global-wide new technological revolution, to change China's backward level of productivity and low state of industrialization, we must establish a new attitude and outlook

regarding value and assets, beginning with actual conditions in China, to set up a patent rights accounting system that is characteristically Chinese. With such a system in place, enterprises will be stimulated into becoming the primary battlefield for exploring patent technology, absorbing and applying the patented techniques that come along, which will truly and completely, give enterprises real technological and economic strength.

I. The Current Status of Patents in China and the Policy for Their Development

Since China's patent law went into effect on 1 April 1985, it has reaped outstanding results. By the end of 1987, China had received a total of 58,958 applications for patents from domestic and foreign sources, of which more than 7,000 have been approved and granted patent rights. Patented techniques or inventions that have been implemented have conferred noticeable economic benefits. Some of these patented techniques and products have even entered the international market, to gain sizeable amounts of foreign exchange for the state. The important effect of patented techniques in national economic construction is becoming more obvious by the day, and following further economic development and technological progress, this step will become an important operating procedure for productivity and management of China's enterprises.

However, when we consider the numbers or the technological level of China's patents from the way they are managed, and compare the situation with that prevailing in advanced nations of the world, China is still in a backward state. The outstanding problem facing China's patent registration process is lack of a leading role for enterprises in the exploration, research and development of patent technology. Among the more than 50,000 patent applications already accepted in China, about 50 percent of the patents were for nonjob-related inventions by individuals, and about 25 percent were foreign applications. The rest were taken up by state enterprises, schools of higher learning, and scientific research organizations. Those that were truly patent applications from enterprises were few. Analysis shows that the proportion of patent applications from China's enterprises in the total national figure is quite small, which does not seem to be in balance with the several hundred thousand enterprises operating nationwide.

If large modern enterprises engaged in production do not have such intangible assets as patents, their enterprise assets are deficient and incomplete. On the other hand, a patent detached or removed from an enterprise loses its value and vitality. Patented techniques are derived chiefly from enterprise need, and are applied toward production and management in the enterprise. When the actual economic power of an enterprise's technology is weighed together with indicators of its competitive strength, one looks for the number of patents it possesses. For example, Japan's Hitachi Corporation applies for about 30,000 patents each year, and other companies

such as Matsushita and Toshiba also average 20,000 patent applications each year. But patent applications in China do not average even one patent per enterprise. Even if there were patents held by an enterprise, they would not be counted among the enterprise assets.

Such a serious situation should give us pause, and make us think and pay attention. There are large numbers of scientific and technological personnel with a good grasp of theoretical knowledge and rich practical experience who are working in scientific research organizations of substance among several hundred thousand enterprises, which seem to indicate that enterprises should be the source of China's patent technology, and the primary battlefield where patented techniques are applied and used.

Now, what are the factors restricting development of patentable items in such a way that abnormal developments, such as that just described, occur? Personally, I think old concepts held by some management agencies and managers have much to do with it. They do not have a proper understanding of the role of patents, and continue to use old styles of management to restrain and inhibit anything new.

Objectively, enterprises in China do not have a tight patent management system, or a comprehensive and systematic patent rights accounting system, or a well supplied source of funding. Macroeconomically, reform in the scientific research system and enterprise reform are not closely linked. While the state has promulgated a patent law, and published details for its implementation, the law and the corresponding management system do not mesh, and "system engineering" combining scientific technology and economic management was never realized. Microeconomically, the outcome showed that without a source of capital funding, an enterprise's capability to develop better techniques was poor, and patent applications, consequently, were few. Under such conditions, even if a technique were developed for patent application, it would be difficult for the environment to properly reflect the working value of the inventor's creativity, and the enterprise would just remain in a relaxed state of no pressure, no action. For such a situation to continue, the active development of new techniques for patent registration and application will suffer, even to the extent of a decline in patented inventions, which in turn will inhibit industrial development.

To develop patent work in China, the urgent task at hand must concentrate first on enterprises, by strengthening their ability to develop, apply, and absorb patented techniques. This is done through establishing a management system for various patent categories, setting up a perfect patent rights accounting system, and accumulating a rich source of patent funds. Of these three, establishing a patent rights accounting system is the key, for it is the foundation of an enterprise's patent system, as well as an effective procedure for accumulating patent funds.

Establishing a patent rights accounting system will change the present state of affairs where a patent is recognized in theory as a commodity—the fruit of labor

or result of work, but the energy actually consumed as the result of such work, and the value of this commodity and how this value if formed, assigned, and compensated for, are not properly reflected. The present state of affairs also does not mention the conditions surrounding specific sources of funds, but it does twist the macroeconomic recognition of patent rights around as an important asset in an enterprise's existence and development. But microeconomically, it does not manage nor make an accounting of what has become the enterprise's property, to result in a situation where the patent's application value and true value are out of line.

Establishing an accounting system will also hasten the formation and perfection of an enterprise's total patent management system, that will allow the enterprise to gradually accumulate an amount of patent funds. As the result, the goal of patented techniques directed toward production to increase the enterprise's economic benefits is reached. A favorable economic cycle where an enterprise's production and operation provide a site for developing and applying patented techniques, and a way for replenishing funding sources is created, allowing "patented techniques" and "economic management" to truly merge and become a factor in heightened productivity.

II. Establishing Basic Principles for a Patent Rights Accounting System in China

1. A patent rights accounting system for China should have a characteristically Chinese flavor

This is the primary principle on which a patent rights accounting system for China should be based. This principle is understood from two aspects. One is based on the objective reality of China's need to increase productivity and develop a prosperous commodity economy, and the need to establish a patent rights accounting system to correspond to this historical task. The second is that such a system must be based on conditions in China. While learning the theory and methodology of related patent rights accounting systems used abroad is quite necessary, we should only accept what is scientific and rational, and not everything.

The promulgation of a patent law for China and establishment of a patent system have created a revolution in the history of science and technology and economic development in China. It has broken the traditional "large rice pot" of no compensation for the fruits of science and technology—an important result of reform in China's economic system and science and technology system. This indicates that construction in science and technology in China has entered a new phase of development, and China's patent rights accounting system similarly is the objective product of this development.

To transform China's lag in science and technology and the weak state of the commodity economy, we should put our utmost effort into development, exchange and wider application of this commodity called patent rights. Among various productivity factors, patent rights is the most active one. We cannot confine patents to just talk

about patents, but to consider the subject from an overall view. From the technical angle, a patent is new, creative, and a practical technical invention; from the legal viewpoint, it is a monopolistic right or interest; and from the economic aspect, it is an intellectual form of an intangible asset held by an enterprise during its course of productive operation. At any rate, it is a special threefold commodity.

As the patent system in China evolves from nothing, the microeconomic accounting that is necessary must correspond to it. What is regrettable is the lack of urgency and attention at present to establishing a patent rights accounting system for China. The development of patentable techniques, their application and promotion are actual manifestations of China's developing productivity. For this reason, we must quickly adopt a new attitude toward value and assets that is favorable to patent technology development, and set up a comparatively complete accounting system.

England's "1623 Monopoly Law" is the world's first "patent law." Patent law in the United States also has a history of almost 200 years. Many developed nations also consider patent rights as an important intangible asset in the production operations of their enterprises, together with a set of patent rights accounting theory and methodology. In researching for a patent rights system for China, we must study and adopt only the scientific and rational parts of patent rights theory and methods practiced by foreign countries, though this does not mean taking over their systems in full. Since 1985, papers on intangible assets and patent rights accounting have been appearing regularly in China, but many of these articles could not detach themselves from the western model for patent rights. We must establish a patent rights accounting system with a characteristically Chinese flavor based on national conditions.

Establishing a patent rights accounting system is limited by the production materials ownership system. The system in China at present is a multilateral one consisting of many forms of ownership coexisting with each other. It is dominated by a public ownership system (people's ownership system and collective ownership system) accompanied by a state capitalist ownership system and individual economy ownership system. In the first place, the structure of multiple ownership systems determines the coexistence of the many forms of patent ownership rights: patent rights under state ownership and those held by work units (for task-oriented inventions in work units under people's ownership); patent rights under socialist ownership (for task-oriented inventions in work units under collective ownership); patent rights under state capitalism enterprise ownership (for task-oriented inventions in domestic-foreign joint venture enterprises); patent rights under individual ownership (for various nonjob-related inventions), and so on. While the structure is different from the patent rights structure under Western capitalism, which is based chiefly on private ownership, it is also different from that existing in other socialist countries (the USSR and

any one of the East European countries). China's patent rights accounting system should express China's unusual public ownership of patent rights as the primary form of patent ownership, coexisting with other forms of patent ownership rights in a multivalent structure. But privately owned patent rights in China are not exactly the same as that existent in capitalist countries, for these nonjob-related inventions in China are used and applied primarily in socialist enterprises.

Next, in a capitalist society, the noninvolvement of government in production, the cyclical economic crises, and the acute competition between weak and strong enterprises require their accounting methodology to adapt to such a commodity economy, otherwise enterprises will find survival difficult. A patent rights accounting system also is no exception, as western nations in general treat the capital outlay of research and development costs for patentable items as an expense deliberately, so the primary value of a patent right includes only expenses of the legal process, which really is an incomplete primary value for the patent right. Again, the channels of enterprise funding in western countries and their management styles are not like that in China either, with their fixed assets reflecting only transferred losses in value, but not reflecting any compensation for fixed asset value and any funds accumulated specifically.

Establishing a patent rights accounting system is limited further by the patent system. Patent systems in various countries share many similarities, yet they are characteristically different. Protecting the legal interests of the inventor to see that they are not infringed upon is a common denominator, which is a positive aspect. However, patent systems in capitalist countries also have a negative aspect, in that they maintain and protect the private ownership of intellectual knowledge and its monopoly on technology. But the patent system in the USSR and other countries in East Europe is a double-tracked one. That is, all technological invention is owned completely by the state who uses it, without compensation. Whether it is in a capitalist country of the West, or the USSR or other nations of East Europe, because of the effect of their respective patent systems, their patent rights accounting systems all have some defect, which cannot reflect the true state of existing patent rights. The outstanding characteristic in China's patent rights system is its emphasis on wide application of inventions patented in China, but this application is to be made with compensation. This fully shows a characteristic of China's planned commodity economy. China's patent rights accounting system should also express this important characteristic of the patent system.

2. China's patent rights accounting system should observe laws of the technology economy

Patent rights make up a part of an enterprise's intangible fixed assets, and like any tangible fixed asset, they result from work. Establishing the rights for a patentable item

must go through stages of design, research and development, testing, model specifications, petition, registration, acceptance and certification, securing patent rights, protection rights, and so on. The exploration, research and development, and testing stages form the basis for the way patent rights evolve. Going through the legal steps of the procedure assures that the patent rights will be secured. These stages are inter-related and cannot be separated. Omitting any one step will make it difficult for any patent rights to be obtained.

The primary value of patent rights as observed in Western countries only includes expenses for legal procedures such as patent petition, registration, and other legalities. The fact that costs expended during the research and development stages are not included does not seem to make this approach very scientific or comprehensive. Particularly in such basic steps as patent design and exploration, start-up, research and development, testing, and modeling, which require a huge amount of active effort, various sums spent during these basic stages constitute the important part of the patent rights' primary value. We cannot arbitrarily separate and cut off any of these stages of patent rights evolvement. China's patent rights accounting system should follow the laws of the technology economy, and on the basis of asset formation characteristics such as patent rights, show its unity and integrity, to properly reflect the total course of patent rights evolvement and its primary value structure.

A fixed asset such as a patent right is different from a concrete form of tangible assets in that it exists in an intellectual form. A patent right can be obtained through in-house development at an enterprise, or through purchase from a source outside the enterprise. In transactions of patent rights purchased on the outside, besides the ownership rights purchased, there is another form where only the right to use the patent is purchased. That is one of the chief characteristics of an intangible asset where its ownership right (holding right) can be "separated."

Under the premise that the owner (holder) of the rights to the patent does not lose his or her interest, this right of patent use is treated as a specific commodity, and its possible assignment to several buyers at the same time make it different from rental of a tangible asset, which allows it to be rented only to one party at a time, while the renter also loses his use of the property at the same time. But when patent rights can be transferred or assigned to several buyers at the same time, the party holding the rights to the patent still retains its right of use. Such right of patent use is beneficial to both sides in assignment and buying and selling transactions. The buyer obtains an advanced technique to improve his enterprise's productivity and economic efficiency, and the seller has a chance to promote broader use of his technique while collecting an assignment fee. Moreover, this is also of positive significance with respect to the whole national economy. This format can stimulate and hasten the application of patented technology, and improve the rate of technical application and the extent of technological collectivization, to gradually raise the proportion of intangible assets among all assets.

Purchasing the right of patent use is actually a form of investment, which we should encourage at the present time, to regulate and soften the fixed asset structure China has at present. In an accounting of patent rights in China at present, we cannot simply regard an investment expenditure on purchasing the right of patent use as a "patent use fee" included in capital cost, but pay attention instead to business transaction characteristics of patent rights, and include them as intangible assets for the enterprise, to reflect the primary value structure, the assignment value, the compensation value, and so forth, for such right of use. Therefore, while we should include among such intangible assets, those patent rights evolved from developments within the enterprise and patent ownership rights purchased from outside the enterprise, we should also include rights of patent use purchased from the outside.

3. China's patent rights accounting system should stimulate preliminary formation of a system of circulating funds for development enterprise technology

To assure the course of social reproduction, enterprises must continue to develop and apply new patented techniques to improve the enterprise's technological level and production capacity, and strengthen the enterprise's market competitiveness. Continued development and application of new patented techniques (also referred to as patent rights renewal) by enterprises bring about a standard between compensation for the value of a patent right and its material compensation. Compensation for the value of a patent right is the funds readied for material compensation of a patent right, and material compensation of a patent right (patent right renewal) ultimately completes the compensation for value, with the two interdependent and complementing each other. Like fixed assets in tangible form, a patent right in form of intellectual property is a fixed tangible asset that can fully assume the task of bringing the working process into play in an enterprise's operation. The value of a patent right during use in form of a promotional fee is partially and gradually transferred onto the product, which, through its final sale, realizes compensation for value, and through the form of currency accumulation, becomes a source of funds for investment into patent technology as a "Technology Development Fund." This will allow enterprises to gradually gain economic and technological strength.

Compensation for the value of rights to a patent is a predeterminate condition for patent technology renewal as well as a strong source of economic support. As support for patent technology renewal in China is rather weak, the reality of economic management at present is the state's treasury assuming the loss in value of the enterprise's patent rights, and without a specific source of capital funding, the enterprise can only show the patent rights' loss in value (calculated in capital costs), and not the incongruous situation between other compensation and accumulation values. If this situation is allowed to continue, such a malignant cycle can become permanent, with no reduction in the state's burden whatsoever. With no specific source of funding, this will

lead to stagnation in the development and application of patentable techniques. As a result, the whole setup for patent technology among enterprises in China will find difficulty in advancing to a leadership role.

Establishing a patent rights accounting system will systematically reflect the course of value assignment and value compensation of patent rights in a comprehensive manner. On one hand, the state should make favorable policies to activate enterprise development by positive application of patent technology. On the other hand, the scope of a patent rights accounting system should allow capital costs for enterprise products to equally shoulder any loss in the value of a patent right, and should be able to find corresponding compensation and fund accumulations to arrive at a standard for loss and compensation values, that integrates loss and compensation values together with fund accumulations. A gradual easing then, in funding sources for enterprise technology development to form a circulating system of development funds, will allow enterprises to be self-sufficient in their capacities to accumulate funds to develop and complete their tasks.

From a strategy for developing China's national economy and improving its level of productivity, we must begin rapidly to establish a patent rights accounting system with a characteristically Chinese flavor, and allow it to reflect in an overall, continuous, systematic and comprehensive way how value for this special form of patent rights is created, assigned, and compensated for in the whole working process. It should also reflect the proportion of patent investment in total national economic investment, the organic structure of total fixed assets in an enterprise, and the proportion of loss in patent values in the total commodity picture. A patent rights accounting system actually show the connection between macroeconomic management and microeconomic management, and the functional fusion between reform in the economic system and reform in the science and technology system. It will improve the enterprise's real economic and technological strength and its overall competitiveness, for it to become the primary battlefield for patent technology development and application in China. By doing so, it will quickly accelerate progress in science and technology and establish a firm foundation for industrial modernization.

FOREIGN TRADE, INVESTMENT

Shanghai Bank Makes Loans To Foreign Trade Corporations

OW0912004889 Beijing XINHUA in English
1456 GMT 8 Dec 89

[Text] Shanghai, December 8 (XINHUA)—The Shanghai Branch of the Communications Bank on Thursday signed agreements with nine import and export corporations on loans totaling 700 million yuan (\$199 million).

The loans were made to help the enterprises import raw materials to promote export production.

The nine corporations are the Shanghai municipal import and export corporations of textiles, drawn work, silk, garments, foodstuffs, arts and crafts, packaging, machinery, and metals and minerals.

Hubei Capital Attracts 'More Foreign Investment'

OW0912111589 Beijing XINHUA in English
1033 GMT 9 Dec 89

[Text] Wuhan, December 9 (XINHUA)—Wuhan, the biggest industrial city in central China, approved 6 projects using foreign capital with a total contracted investment of 127 million yuan (\$33 million) in the first 10 months of the year.

Yao Guangjun, director of the Wuhan City Committee of Foreign Economic Relations and Trade, said that since 1985 Wuhan has signed 301 joint-venture contracts worth \$503 million. A total of 111 foreign-funded enterprises have been set up in the city.

Li Kaijiang, director of the Wuhan Foreign-Funded Enterprises Association, said more and more foreign investment in the city has been used for industrial production.

In the 38 newly established joint-venture businesses, 90 percent of the investment funds have been spent on production equipment, but last year only 55 percent of the foreign funds were invested in that area.

Li said 90 percent of the newly built foreign-funded enterprises are export-oriented and all or part of their products will be for export under contract.

He predicted that next year the enterprises would earn \$60 million.

Wuhan also puts stress on expanding exports by processing with supplied materials, designs and parts, and compensation trade.

The city's electronic, medicine, light industry, machinery, and garment export and import companies and leasing corporation have signed 19 contracts with a value of \$3.65 million. The exports include barges and electronics.

It has also imported advanced technologies to upgrade locally made equipment for making optical fiber and treating steel slag.

Zhejiang City Signs Barter Trade Agreement With USSR

OW1112080089 Beijing XINHUA in English
0723 GMT 11 Dec 89

[Text] Ningbo, December 11 (XINHUA)—Ningbo, an open coastal city in east China's Zhejiang Province, has signed an agreement with the Soviet Union on an exchange of goods worth 10 million Swiss francs.

The goods include household electrical equipment, medical instruments, light industrial products and textiles.

A trade delegation from the Soviet Sakhalin District has also signed agreements with Ningbo City on economic cooperative programs.

Sichuan Seeks Overseas Investors in Hydropower

*OW1312020089 Beijing XINHUA in English
1531 GMT 12 Dec 89*

[Text] Beijing, December 12 (XINHUA)—Ma Lin, vice governor of Sichuan Province, announced here today that Sichuan will develop a preferential policy and other measures to seek domestic and overseas investors to jointly exploit the hydropower potential of three river valleys—the Jinsha, Yalong and Dadu.

Ma said Sichuan has the largest hydropower resources of China's provinces. The province boasts exploitable hydropower resources of 91.66 million kw. That could yearly produce 515.3 billion kwh of electricity.

The Jinsha, Yalong and Dadu river valleys hold the province's main hydropower resources, the vice governor said.

He said these river valleys also have rich mineral, plant and animal, and tourism resources to tap.

Overseas investors are invited to set up joint ventures and engage in compensation trade. Investors will generally be compensated with mineral products and silk-worm cocoons.

Shanghai Focusing on Asian Investors

*HK1312022589 Hong Kong SOUTH CHINA
MORNING POST (BUSINESS POST) in English
13 Dec 89 p 4*

[By Geoffrey Crothall]

[Text] While Western businesses continue to "wait and see" before they return to China, Shanghai is soliciting investment and trade from its Asian neighbours.

Shanghai approved 252 foreign-funded ventures with a total investment of \$365 million in the first 10 months of this year, and the vast majority came from Asia.

Singapore is the leading investor with \$120 million pledged during the period, accounting for 39 percent of the city's foreign investment this year.

Hong Kong has now overtaken the United States as the leading single investor in Shanghai, with 349 ventures in the city and a total investment of \$658 million.

In the first 10 months of this year, direct investment from Taiwan has increased 38 times over the same period last year, and Malaysia has just established its first joint venture in the city, according to figures

released by the Shanghai Commission for Foreign Economic Relations and Trade.

"The Asian investors, particularly the Overseas Chinese, don't seem to care about political and economic stability in China," said a Shanghai-based investment analyst.

"Their ventures are usually small enough to be financed internally or with only a minor bank loan and do not feature a high degree of risk," he said.

A lot of the new Asian-backed ventures are in hotels, shops and restaurants, and of the 162 industrial projects approved this year, the majority are in textiles, plastics and manufacturing.

Few involve the kind of high-technology the municipal government says it wants to attract.

"Shanghai still has to rely on the West for technology transfers," a Chinese economist said. "The Overseas Chinese, especially the Taiwanese, seem to think we will steal their ideas if they bring their technology here."

Shanghai hopes to get round the lack of high-technology investment by expanding its technical and economic links with India.

V. Srinivasan, vice-president of India's Confederation of Engineering Industries, pointed out on a recent visit to Shanghai that China and India could exchange advanced technology absorbed from the West, instead of doubling up on imports, thereby saving foreign exchange.

If China and India, which comprise 40 percent of the world's population, were to form an economic community, it would be the largest in the world, he added.

In addition, Shanghai is marketing its light industrial and consumer goods in Soviet Central Asia in return for much needed energy and raw material supplies.

Last month, Shanghai staged the first export commodities fair directed specifically at the Soviet Union and Eastern Europe, and Soviet commercial sources said all the Soviet delegations came away "very satisfied" with deals struck at the event.

The Soviet consulate in Shanghai recently appointed a new trade consul to take charge of its expanded trade and commerce department in anticipation of the increased volume of trade in the future.

Since last year, the value of barter trade between Shanghai and the Soviet Union has reached more than \$30 million.

Sino-Japanese Companies Form Building Materials Venture

*OW1612203589 Beijing XINHUA in English
1559 GMT 16 Dec 89*

[Text] Dalian, December 16 (XINHUA)—Construction of Dalian Huaneng-Onoka Cement Co, Ltd, China's

largest building materials joint venture, started in Dalian in northeast China's Liaoning Province this morning.

The Sino-Japanese joint venture was initiated by China Huaneng Raw Materials Corporation, Dalian Cement Plant and [company names indistinct] Corporations, Onoda and Mitsui.

Investment in the project totals \$157.8 million, with 49 percent by the Chinese partners and 51 percent by the Japanese partners.

The enterprise will produce 1.37 million tons of silicate cement each year. Seventy-one percent of production will be sold abroad by the Japanese partners and the rest will be sold domestically by the Chinese partners.

The enterprise is expected to go into operation by the end of June 1992.

ECONOMIC ZONES

Guangdong Economic, Technological Zone Good for Investors

OW1312031689 Beijing XINHUA in English
1217 GMT 11 Dec 89

[Text] Guangzhou, December 11 (XINHUA)—In the 1990's, the Guangzhou Economic and Technological Development Zone will provide golden opportunities and a better investment environment for foreigners and overseas Chinese to do business here.

Huang Ruiyuan, permanent vice-chairman of the management committee of the zone, told reporters this on Saturday.

The zone, opened five years ago, has made remarkable achievements in construction and foreign trade and in other respects.

A total of 318 contracts have been signed between Chinese and foreigners, and Chinese with Chinese. The zone has also spent 1,208 million yuan (about \$330 million) on the construction of basic facilities.

One hundred and fifteen joint ventures, with capital from the United States, Australia, Britain, Federal Germany, Italy, Austria, Canada, Singapore, Thailand, Hong Kong, Taiwan and Macao, have been set up, absorbing more than \$160 million of foreign funds.

Over the past five years, the value of the zone's industrial output has reached 1,466 million yuan (about \$390 million), making 384 million yuan (about \$130 million) of profit.

As a result, 30 kinds of goods, including steel products, machinery, electrical equipment and textiles, have been marketed internationally, earning \$328 million of foreign exchange.

Businesses in the zone enjoy a sufficient supply of electricity, water and heat and can enjoy convenient telephone service and transport.

Huang Ruiyuan also released the development plan for the zone in the 1990's, especially in the next two years.

He said the zone will continue its preferential policies for those foreign-funded projects, especially high-technology projects and public-facility projects, and major efforts will be made to support the 101 businesses that have gone into production or are in trial production.

To guarantee the rights of the businesses to make their own decisions and to stress scientific management, great importance will be attached to those departments that service business production.

Huang also said more encouraging policies and methods, such as the leasing of factory workshops and homes at low prices and the guaranteeing of technical patent rights, will be worked out or implemented in the zone soon.

Shenzhen Stock Exchange Planned for 1991

HK1312015589 Hong Kong HONGKONG STANDARD
(BUSINESS STANDARD) in English 13 Dec 89 p 1

[By Peggy Sito]

[Text] The long-awaited stock exchange for Shenzhen—a major development towards a more open economy for China—is now scheduled to begin operations in the spring of 1991 despite Beijing's moves to tighten economic controls.

Mr Tony Child, executive director of Sun Hung Kai Securities, said yesterday that the drafting of the new regulations for the exchange had now been advanced, and the work would be finished in the first quarter of 1990.

The long-planned project, originally expected to open last September, had been left hanging in the air following the June 4 massacre.

China's retrenchment towards a more centrally planned economy has been making the concept of a stock market based on a free-market system, look ever more remote.

"We are now negotiating with the Shenzhen government," said Mr Child, who heads the advisory work for the exchange. While China's economy has been set back by June 4, Mr Child expects Shenzhen to be less affected as it remains an attractive place to invest.

Shenzhen authorities had set up a capital market working group early this year led by Shenzhen vice mayor Zhang Hongyi to study and recommend regulations for a securities market.

To be operating on similar lines to that of the Hong Kong exchange, the formation of the regulations had made considerable progress this year until June, when the plans went into limbo. The new regulations need the approval of the Shenzhen People's Congress.

The planned stock market would be located in the Shenzhen International Trading Centre.

The exchange is expected to begin operations carrying the listings of about 15 to 20 mainland enterprises.

Mr Child said the buyers and sellers would be individuals in Shenzhen. He failed to mention whether Hong Kong people would be able to buy stocks in Shenzhen.

In the past two years, stock markets have been started in Shanghai, Shenyang and Wuhan. But only a small number of shares trade in each market, and few of the sought-after stocks actually are available to change hands.

More important, the exchanges act more like a bond market in that the shares provide only a fixed rate of return.

In contrast, the Shenzhen exchange would be similar to other international exchanges, where stocks don't offer fixed returns.

There is currently a municipally-run Shenzhen Security Company, the sole brokers of stocks in the Special Economic Zone. But just a handful of companies trade there. Major firms among them are Shenzhen Development Bank, Vanke Enterprises and Jintian Enterprises.

Shenzhen Export-Oriented Economy Increases 'Steadily'

*OW1312100289 Beijing XINHUA in English
0831 GMT 13 Dec 89*

[Text] Shenzhen, December 12 (XINHUA)—An export-oriented economy has increased steadily since early this year in Shenzhen City, a special economic zone in south China's Guangdong Province.

During the first 11 months of this year, the city exported \$5.7 billion worth of industrial commodities, 43 percent more than the same period of last year. The export value accounted for 58.4 percent of Shenzhen's total industrial output in the period.

Businessmen here believe that after a decade's development, the special economic zone is very adaptable to changes in domestic and overseas markets.

In view of the present austerity policy in China and a weak domestic market, Shenzhen has gone all out to seek business on the international market since early this year.

Shenzhen now has nearly 1,000 industrial enterprises which export. Among them are over 100 enterprises who record an annual export value of more than \$1 million.

Foreign-funded enterprises have played an important role in the city's overseas business this year. In the first 10 months, foreign-funded enterprises in Shenzhen exported 732 million U.S. dollars worth of commodities, 71.4 percent more than the same period of last year.

The foreign-related business of processing customer-supplied materials and assembly of customer-supplied parts has flourished. From January to October of this year, Shenzhen city earned \$144 million from the business, 44.4 percent more than in the same period of last year.

Businessmen from other parts of the country have rushed to the special economic zone to develop businesses. This has also promoted the export-oriented economy of the city.

Shenzhen Fulfills 1989 Industrial Target Early

*OW1312020389 Beijing XINHUA in English
1549 GMT 12 Dec 89*

[Text] Shenzhen, December 12 (XINHUA)—The total industrial output value of Shenzhen Special Economic Zone in south China, for the first time in history, reached 10 billion yuan by 2 December, 28 days ahead of the target for the year.

It was expected that the total industrial output value of the zone would reach 11.5 billion yuan by the end of the year.

The achievements were made by decreasing the cost of production and economizing by industries in the zone suffering from shortages of raw materials, funds and energy like other places in the country, according to a local official.

The official said an export-oriented economy had developed quickly in the zone. The value of industrial exports during the eleven months increased 43 percent over the same period last year.

Since the special economic zone was established nine years ago, over 2,000 enterprises have been set up in the zone. The enterprises are engaged in 33 industries including electronics, machinery, textiles, petrochemicals, light industry, building materials and medicines. They produce 1,000 products, 600 of which are exported.

Revenue From Foreign Funds Increases in Xiamen

*OW1412002289 Beijing XINHUA in English
1547 GMT 13 Dec 89*

[Text] Xiamen, December 13 (XINHUA)—Foreign-related tax revenue has increased rapidly this year in Xiamen City, a special economic zone in southeast China's Fujian Province.

Chen Conghui, director of the city's taxation bureau, said that in the first 11 months of this year, the city collected 280 million yuan in foreign-related tax revenue, 118 million yuan more than in the same period last year.

Chen said foreign-related tax revenue accounts for one-fourth of the city's total tax revenue.

More foreign-funded enterprises have come to the end of their tax-free incentive period and entered the half-tax period this year, Chen said, adding that the enterprises have increased their investments by \$68 million this year.

He said the city government will make more efforts to further improve the investment environment for overseas businessmen.

POPULATION

Preparations for National Census Begin

OW1712102789 Beijing XINHUA Domestic Service in Chinese 1353 GMT 12 Dec 89

[Text] Beijing, 12 Dec (XINHUA)—Preparations for the fourth national census have begun in general. As of now, the leading organs and general offices at and above the county level for the national census have been set up. Various localities for carrying out experiments in this connection at the national and provincial levels have been selected. The "Provisions for the fourth National Census" have been promulgated by the State Council and the work for screening all households and giving widespread publicity to the census is being carried out as scheduled.

It is reported that there are a total of 21 items to be filled on the form for the 4th national census—the largest number of items for any national census in the past. The total population for this census is expected to exceed that during the third national census by approximately 100 million, the largest number in the history of world census'. At the same time, the time needed to prepare for this census and the period to compile the reference materials for this census are shorter than those during the last national census. They are also relatively shorter than those in many developed countries.

At the closing meeting on the work for the 4th national census today, Liu Zhongde, deputy secretary general of the State Council and deputy head of the leading group in charge of this event, emphatically pointed out: The data for the national census is different from that in other areas. It should not be described as "basically accurate." We must ensure an accuracy of 100 percent even for the most basic units. If one number is wrong or one item was mistakenly filled in one basic-level unit, the total wrong numbers and the misinformation will yield inaccurate results on a nationwide basis.

TRANSPORTATION

Powers of Admiralty Courts Broadened

40060019A Chengde JINGJI XIAOXI [ECONOMIC NEWS] in Chinese 3 Nov 89 p 1

[Summary] Upon approval of the Supreme People's Court, China's six admiralty courts will be permitted to hear 40 different types of maritime cases. The courts, established in Shanghai, Tianjin, Guangzhou, Wuhan, Dalian, and Qingdao, currently hear 18 different types of cases.

The courts' powers will be broadened to include the following issues: compensation for loss due to wave damage; compensation for damage due to collision with

docks, dikes, landing stages, locks, bridges, or navigational or other facilities at sea; compensation for damage due to seabed or under water laying; compensation for water pollution or damage to other vessels or cargo caused by the construction, operation, or dismantling of a vessel in port or at sea; compensation for damage to fishing nets, fishing facilities, or fisheries due to vessel navigation or operations; damage due to collision with sunken obstacles in the channel, or due to installations at sea adversely affecting navigation; cases involving the illegal placing of liens on vessels or cargo.

PRC MEDIA ON FOREIGN ECONOMIES

Reform of Soviet Bloc Economic Relations Examined

90OH0070A Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 8, 10 Aug 89 pp 67-72

[Article by Mao Rongfang (3029 5554 5364), CPC Party School: "The Experience and Lessons of the Soviet Union and East European Countries in Readjusting and Reforming Their External Economic Relations"]

[Excerpt] [Passage omitted] The principal experience and lessons of Soviet Bloc countries in developing external economic ties are as follows.

First, countries must approach external economic ties from the high plane of strategy and adopt stable and consistent policies. Soviet Bloc experience in economic development shows that, generally speaking, countries that best develop external economic ties or periods in which such ties grow best exhibit faster economic development, and countries and periods of poorly developed economic ties show slow economic development. The Soviet Union has learned a profound lesson in this regard. During its First 5-Year Plan, China, in order to industrialize, took advantage of the great economic crisis in the capitalist world between 1929 and 1933 to import half of the world's total exports of machinery and equipment, which China used to effect technological transformation of old enterprises, to create a series of new industries, and to round out its national economy. But errors in guiding ideology during the Second 5-Year Plan led China to cut way back on its external economic ties and to move toward a monolithic form thereof. This approach, which treated the development of external economic ties as an expedient to achieve specific tasks and alternated between opening and closing, made it difficult for it to close the economic and technological gap between itself and the West. Thus countries must approach the significance and role of opening up to the outside world from the strategic high plane of internationalizing production and adopt consistent, stable policies. This is an important factor determining countries' economic success or failure.

Second, countries must closely integrate their external economic ties with their strategies for economic development and make the ties serve the strategies. This effort must focus on the following areas:

1. Countries must apply the capital and technology they obtain abroad to sectors that are decisive in realizing economic development strategy and use that capital and technology to fix weak links in their national economies. During the 1960s, the Soviet Union, to "chemicalize" its national economy, imported 48 sets of equipment from the West to produce chemical fertilizer and other chemical products within 10-odd years and thus enabled its chemical industry to develop rapidly.

2. Countries must concentrate foreign capital in key productive projects and not purchase upscale consumer goods like luxury cars, consumer durables, and household appliances.

3. In importing equipment, countries must devote attention to the technology used to manufacture that equipment so as to improve domestic ability to produce such and to avoid redundant importing.

Such policies have produced good economic results. For example, according to Western estimates, although only 5 percent of all industrial equipment in the Soviet Union was imported from the West, approximately 15 percent of its gross industrial output value is produced with that equipment. And the purchase of 100-plus computers from the West advanced its computer industry by 10 years.

Third, countries must be sure to diversify the forms of their external economic ties and their capital and technology import sourcing. There are all kinds of external economic ties, but effectiveness varies. For example, compensation trade was once big among Soviet Bloc countries. From 1976 to 1986, the Soviet Union employed this form to obtain \$26 billion in foreign capital and to initiate 60-plus such projects. Nevertheless, compensation trade also has limitations: (1) Western interest therein is largely confined to extractive industry, and Westerners use this form to obtain resources, especially petroleum and natural gas. (2) Western countries are cautious about engaging in processing compensation trade, fearing that the goods produced therein may compete with their own products. (3) The terms of compensation trade enable Western companies to obtain, in accordance with agreement, stable supplies of products, so the companies are totally uninterested in improving the productive technology or techniques employed in the projects. Thus, in developing external economic ties, countries should employ a variety of forms. Soviet Bloc countries are now focusing on joint ventures as a means of obtaining foreign capital and technology and are planning free trade zones, special economic zones, and the like.

Soviet Bloc countries have also been attentive to diversifying capital and technology sourcing, an approach that has the following advantages. (1) The countries can draw

on the strengths of all countries and exploit contradictions among Western nations to extract more favorable terms. (2) Politically, the countries can avoid being dominated by one or two nations and enjoy greater maneuverability.

Fourth, countries must "use imports to spur exports." Soviet Bloc manufactures have long been shoddy and uncompetitive internationally, so in importing, bloc members have devoted special attention to projects that both meet the needs of economic development and improve export capacity and have accorded these projects priority. For example, the Soviet automotive industry so improved the quality and competitiveness of its products with imported Western technology and equipment that the industry's exports surged and now total approximately 400,000 units a year.

Fifth, foreign borrowing must be based on repayment capability. Soviet Bloc countries have experience and have learned lessons in this area. Statistics from the UN Economic Commission for Europe show that as of early 1989 the Soviet Union and the six East European countries had a total foreign debt of \$130 billion, of which the Soviet Union owed \$41 billion, Poland \$38.7 billion, the GDR \$19.1 billion, Hungary \$17 billion, Bulgaria \$6.9 billion, Czechoslovakia \$5.2 billion, and Romania \$3.1 billion. If the countries' foreign exchange deposits of \$30 billion held in Western banks are deducted, their net debt totals \$100 billion.

The Soviet Union generally has been fairly careful in borrowing abroad and maintains good macroscopic control. Whenever China runs into balance of payments problems, China solves them by slashing imports and selling off large reserves of gold. Thus its debt repayment capability is quite strong.

Yugoslavia is another matter. Since the mid-1960s, China has been up against two major economic difficulties: a deteriorating balance of payments stemming from trade deficits and loss of control over and mounting foreign debt. An April 1987 issue of the Yugoslav journal *EKONOMSKA POLITIKA* [ECONOMIC POLICY] reported that its debt totals \$23.8 billion, for a per capita average of \$1,000, and has to pay out \$4.5-5.0 billion a year in principal and interest to service its debt, a level that approximates 50 percent of its foreign exchange earnings; in other words, China has a debt repayment ratio of almost 50 percent, which is much higher than the internationally accepted 20 percent. Poland and Hungary also face grim debt situations, with burdens three or two times, respectively, their export earnings.

Practice shows that, in utilizing direct foreign investment, countries must not only be attentive to their ability to repay foreign loans but also take into account foreign exchange balance.

Sixth, in importing technology, countries must avoid "running in place" relative to exporters. This problem plagues Soviet Bloc countries to varying degrees because, objectively speaking, Western countries usually do not transfer

their most advanced technology and equipment to socialist countries but rather sell things that are already in common use at home, and countries importing such things are well on the way to "running in place." Even more importantly, the current scientific and technological revolution, in which productive technology is developing rapidly, makes it much more difficult for technologically backward countries to catch up with leaders. Thus to avoid "running in place," countries must not only adopt stable and consistent import policies so as to keep abreast of technological advance but, more importantly, innovate as they assimilate imported technology. Limiting oneself to imitation dooms one to "running in place."

Seventh, countries must devote much attention to the training of external economic relations and foreign trade personnel. To meet the needs involved in expanding external economic ties, Soviet Bloc countries provide strict training for cadres to do this work and require that they master foreign languages, possess rich and solid knowledge of the world economy, international trade and finance as well as other matters pertaining to external affairs, be fully versed in all aspects of the countries with which they deal, be of good political quality, and be able to work flexibly and decisively. Existing staff is required to undergo frequent in-service training so as to keep up to date.

AGRICULTURE

Income of Peasants Viewed

HK3011064189 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 9, 20 Sep 89 pp 43-49

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(6223 2429 1627), and Liu Changcui (0491 7022 5050) with contributions by He Huanyan (0149 3562 3508) and Zhu Xaindong (2612 0686 2639), all from the State Statistics Bureau Rural Survey Group, August 1989: "A Preliminary Analysis of the Influence of Price Changes on Peasants' Income"]

[Text] Reform of the price of agricultural and sideline products carried out since the 3d Plenary Session of the 11th CPC Central Committee have improved price parity in exchanges between industrial and agricultural products, which had been distorted over the years, so that peasants are the ones who have benefited. In the wake of in-depth development of reform, the change in the original pattern of distribution has caused new clashes and conflicts.

I. The Increase in the Amount of Peasants' Income Is Greatly Affected by the Price Factor

1. Effects of price changes on the growth of peasants' income.

Between 1979 and 1988, the per capita annual net income of China's peasants shot up from 134 to 545 yuan, an increase of 411 yuan or 3.1 times. After price adjustment, the actual growth was increased by 2.1 times, or 11.8 percent, per annum. A survey showed that the main reasons for the growth in peasants' income were the rise in prices, production development, the reduction of and exemption from taxes, the transfer of due payments, and so forth. In the wake of non-agricultural development in the rural areas the labor income, and income in the nature of wages, received in these areas were also important factors contributing to the growth of income. See Table 1:

Table 1

Year	Increase in net income	Production development	Increase in agricultural & sideline products	(Unit: yuan/person)		
				Increase in labor cost	Wages income	Tax reduction and exemption, transfer of due payments
1979	26.6	4.3	12.25	10.05		
1980	31.16	14.94	5.61	10.61		
1981	32.11	18.66	6.26	7.19		
1982	46.67	26.92	12.98	6.77		
1983	39.66	23.54	6.59	0.48	4.25	4.8
1984	45.56	27.49	7.51	1.22	4.63	4.71
1985	42.27	13.24	15.86	1.88	5.88	5.41
1986	26.16	5.91	13.48	1.87	5.46	-0.56
1987	38.79	10.22	27.11	2.56	6.2	-7.3
1988	82.39	2.45	60.23	7.73	9.33	2.65
Total	411.37	147.67	167.88	15.74	35.75	44.33

The main characteristics of such growth in peasants' income were:

1) The price increase in agricultural and sideline products was the most important reason for a sharp growth in peasants' income. Between 1979 and 1988, the extra income received from price increases was 167.88 yuan per person. Its proportion of the increase in net income rose from 46.05 percent in 1979 to 73.1 percent in 1988. In particular, this proportion sharply increased in the years after 1984.

2) Agricultural production development was promoted by the price mechanism. Between 1979 and 1988, the amount of increased net income derived from production development to that received by each peasant was raised from 4.3 yuan in 1979 to 27.49 yuan in 1984. As this proportion of the peasants' net income increased annually it rose beyond 60 percent in 1984. Production was eventually affected and its proportion in the peasants' net income dropped after we began readjusting the composition of rural industries in 1985 and as a result of the diminishing effects stimulated by prices.

3) The effects of reduction of and exemption from taxes and of transfer of income by the state. While increasing the purchase price of agricultural and sideline products, and opening the prices of agricultural and sideline products not covered by purchase contracts to the market, the state had cut and exempted them from taxes and had strengthened support to old, new, remote, and poverty-stricken areas since 1979.

This further increased the peasants' income. Between 1979 and 1984, the amount of income derived from such reductions and exemptions was 44.13 yuan per peasant, or 19.9 percent of the increase in the per capita net income. This figure gradually dropped between 1986 and 1987.

4) The rising price of rural labor raised the peasants' income. Peasants' income derived from this source increased annually after 1983. The proportion was also raised from 1.21 percent in 1983 to 9.38 percent in 1988.

5) Income in the nature of wages received by peasants was constantly increased so that its proportion fluctuated sharply throughout the years. Between 1983 and 1988, per capita income wages were increased from 4.25 yuan to 9.38 yuan, while the proportion was raised from 10.72 percent in 1983 to 20.87 percent in 1986, before dropping to 11.32 percent in 1988. 2. *Effects of price changes on the peasants' income and expenses.*

Between 1979 and 1988, the prices of means of production for agricultural use, consumer goods for daily use in rural areas, and of noncommodity services were constantly increased, while the general index of purchase price of agricultural and sideline products increased by 144.5 percent. To a certain extent, this offset the benefits gained by the peasants from the price rises of agricultural and sideline products. See Table 2.

Table 2

Year	Increase in expenses due to price rise	Purchase of consumer goods for daily use	(Unit: yuan/person)	
			Noncommodity services	Purchase of means of production for agricultural use
1979	1.42	1.37	0.01	0.04
1980	4.68	4.54	0.03	0.14
1981	2.96	2.45	0.04	0.48
1982	2.59	1.91	0.07	0.6
1983	2.87	0.71	0.15	2
1984	8.96	1.7	0.9	6.36
1985	19.13	13.11	1.5	4.51
1986	15.11	12.47	1.51	1.13
1987	23.99	14.01	2.05	7.93
1988	73.5	45.05	5.78	22.67
Total	155.21	97.32	12.04	45.86

The main characteristics of such effects on the peasants' income and expenses were:

1) Between 1979 and 1988, the price index for means of production sold to rural areas was increased by 55.3 percent. The average amount of expenses paid by peasants was thus increased from 0.04 yuan in 1979 to 22.67 yuan in 1988 and the rate of increase fluctuated sharply throughout this period.

2) The price rises in consumer goods for daily use in rural areas made peasants pay more. The proportion of such expenses to the increase in expenses as a result of price rise was dropped from 96.4 percent in 1979 to 10 percent in 1984. It then fluctuated within the range of 58.4 to 82.6 percent during the 1985 to 1988 period.

3) The price rises in rural services made peasants pay more. Between 1979 and 1983, the proportion of price of

services to the peasants' expenses was below 5.3 percent because the price index for such services was kept below the 3 percent level. As the price increased sharply during the 1984-1988 period, the amount of increase in non-commodity expenses paid by each person was raised from 0.9 yuan to 5.78 yuan. The proportion fluctuated within a range of 7.9 to 10 percent.

3. Actual benefits gained by the peasants from the price changes.

Between 1979 and 1988, the peasants did not gain much benefit from such changes because of the effect of price differential. In certain years they even gained only a little. See Table 3.

Table 3			
(Unit: yuan/person)			
Year	Benefit gained from price rise	Increase in expenses after price rise	Actual benefit after balancing
1979	12.25	1.42	10.83
1980	5.61	4.68	0.93
1981	6.26	2.96	3.30
1982	12.98	2.59	10.39
1983	7.07	2.87	4.20
1984	8.73	8.96	-0.23
1985	17.74	19.13	-1.39
1986	15.35	15.11	0.24
1987	29.67	23.99	5.68
1988	67.96	73.50	-5.54
Total	183.62	155.21	28.41

II. Effects of Price Changes on the Price Differential of Industrial and Agricultural Products

To open up the price of agricultural and sideline products, and to minimize or eventually eliminate the price differential between industrial and agricultural products, are the major contents of our price reform. But because China's economic foundation was relatively weak, the market was not very relaxed, and its degree of tolerance was low, the price differential between industrial and agricultural products, and the internal contrast in price parity, underwent a process in which the difference was narrowed down to minimum before being widened again. According to estimates by the relevant departments, the price differential between industrial and agricultural products was widened from 59.9 billion yuan in 1980 to 85 billion yuan in 1987. It was over 90 billion yuan in 1988.

1) The price parity of industrial products to agricultural ones was widened so that the quantity of industrial products exchanged by peasants with their agricultural and sideline products was reduced. According to a survey conducted among rural households, the quantity of cotton cloth, soap, and washing powder exchanged by peasants with every 100 kg of grain sold dropped by 7.6, 15.1, and 12.1 percent in 1988 when compared to 1986. Judging from the supply of the means of agricultural production, the quantity of chemical fertilizer, agricultural chemicals, film sheets, and diesel for agricultural use dropped by 15.1, 35.7, 39.5 and 59.9 percent. See Table 4:

Table 4						
Industrial products for exchange with each 100 kg of (mixture) grain						
	1983	1984	1985	1986	1987	1988
Edible Sugar (kg.)	25.5	29.9	30.3	23.7		
Cigarette (box)	118.8	126.4	117.9	115.2		
Cotton Cloth (m)	18.1	19.6	20	22.4	21.9	20.7
Soap (bar)	116.7	128.6	126.7	141.9	139.4	120.5
Washing Powder (kg.)	24.1	24.2	23.9	26.5	28.6	23.3
Chemical Fertilizer (kg.)	116.7	112.5	118.8	141.9	131.4	120.5
Agricultural Chemicals (kg.)	20.8	14.8	11.5	12.6	11.7	8.1
Film Sheet (kg.)	1.03	9.7	10.6	11.9	10.7	7.2
Diesel (kg.)	58.3	60	55.1	57.1	57.5	22.9

2. The price rise in industrial products which take agricultural and sideline products as raw materials exceeded that of agricultural products, while the price elasticity of industrial products which take agricultural products as raw materials was reduced.¹ In the long-term

structure of "dual economy," agriculture has not only provided raw materials to industry but also provided, through the price differential, a large quantity of accumulation for industry. As of the end of 1987, this amount had reached 600 billion yuan and this situation

still existed in 1988. Let us take sugar and cotton, the prices of which were subject to large scale readjustment in 1988, as examples. The prices of sugar and cotton sold by peasants were increased by 12.1 and 20.5 percent respectively. However, the price of edible sugar and cotton cloth purchased by them was increased by 21.9 and 47.4 percent. In other words, they exchanged 22.4

percent less edible sugar for every 100 kg of sugar they sold and 8.7 percent cotton cloth for the cotton. The drop in the coefficient of price elasticity of agricultural products, measured against industrial products taking agricultural products as raw materials, was manifested in an imbalanced price rise so that the exchange of agricultural products was in a highly unfavorable position.

Table 5

	Coefficient of price elasticity				
	1984	1985	1986	1987	1988
Cotton Vs cotton cloth	6.68	5.82	3.72	1.84	0.55
Sugar Vs edible sugar	11.00	0.00	0.53		
Tobacco Vs cigarettes	0.17	3.14	0.83		

3. The price rises of industrial and agricultural products in an inverse direction caused the peasants to suffer losses. In 1979, after reduction of additional expenses related to price rises in production costs and the means of production, the amount of peasants' income derived from price rise was 10.83 per person. The figure was in the red in 1984 and dropped from -0.23 yuan to -1.39 yuan in 1985. Though it bounced back to 0.24 yuan and

5.68 yuan in 1986 and 1987, it dropped back to -5.54 yuan in 1988. Between 1979 and 1983, of the peasants' income derived from price rises in agricultural products, each yuan so earned was offset by 0.12 to 0.83 yuan by the price rises in industrial products and services. Moreover, except for certain years, between 1984 and 1988 each yuan of the peasants' income derived from price rises was offset by about 1.2 yuan.

Table 6

Per capita ratio of peasants' income increased because of price rise									(Increased income = 1)
1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
0.12	0.83	0.47	0.20	0.44	1.19	1.21	1.12	0.88	1.22

4. The internal price parity of agricultural products was irrational and the basic position of grain was challenged. In recent years, since the state opened up the price of major nonstaple food such as meat, eggs, vegetables, and sugar to the market, the price of such food rose so sharply that it even exceeded the price rise in grain. A survey among peasant households indicates that the price parity of grain to vegetables, gourds, and fruits was

widened from 1:0.46:0.49:1.17 in 1983 to 1:0.58:0.52:1.74 in 1988. The price parity of grain to pork and eggs was widened from 1:5.2:6.1 to 1:7.8:7.1. The relative drop in the price of grain threw the pricing system, which takes the grain price as the focal point, into chaos, thereby impairing the role of being a weighted figure in the price index of agricultural and sideline products and seriously dampening the initiative of peasants in grain production.

Table 7

Year	Price parity between grain and relevant agricultural products				(Grain price = 1)
	Pork	Eggs	Vegetable	Gourds	Fruits
1983	5.2	6.1	0.46	0.49	1.17
1984	5.8	6.0	0.41	0.41	1.39
1985	6.5	6.1	0.47	0.50	1.68
1986	5.8	5.5	0.41	0.43	1.61
1987	6.2	6.5	0.52	0.50	1.61
1988	7.8	7.1	0.58	0.52	1.74

III. Effects of Price Changes on the Distribution of Resources in Rural Areas

Price changes brought about a shift of interests among different social groups, thus affecting the reorganization

of the composition of industries in the rural areas, and structural changes in the sources of peasants' income.

1) Price changes forced the rural areas to reorganize the composition of their industries. Following the

implementation of reforms, nonagricultural industries in the rural areas experienced rapid development. Their comparative interests were indicated by an increase in the returns on investment in the secondary and tertiary industries. In order to obtain more profit, peasants put more investment into these industries. In 1988, the average amount in expenses spent on secondary and tertiary industries by each peasant household was 17.8 yuan, an increase of 32.1 percent compared to the previous year, a growth rate increase of 3.2 percent compared to that of investment in the primary industry. The reasons why peasants invested more in the secondary and tertiary industries were: 1) The purchasing power of agricultural products, which was used as the means of investment, dropped annually. Through comparison between the margin of price rise in the sale of agricultural products, and the purchase of means of production, we can see that the purchasing power in the rural areas of agricultural products, used as the means of investment, dropped from 95 percent in 1981 to 78.9 percent in 1988, a reduction of 16.1 percent. To a certain extent this dampened the initiative of peasants in agricultural production and encouraged them to invest in nonagricultural industries. 2) The comprehensive price parity of industrial products to agricultural ones was better and efforts to narrow the "price differential" did not work, so that the move to investing in secondary and tertiary industries became more attractive. Before reforms were implemented, peasants were forced to stay on the land on which they made their living because of the then rigid and constraining policies on agricultural production. Since the reforms were carried out, the peasants have the right of autonomy in running their business. As the profitable secondary and tertiary industries were so attractive to them, we could make these industries rationalize the shift toward nonagricultural business by peasants if the "price differential" were appropriately reduced. However, as our recent efforts to reduce the "price differential" between industrial and agricultural products did not work, the comprehensive price parity of industrial products to agricultural ones (a comprehensive price parity of industrial products to agricultural ones calculated on the basis of taking the purchase price index of agricultural products as 100) was as high as over 90 percent. Even if productivity in industry and agriculture were increased at the same rate, the "price differential" between industry and agriculture would see little change. Furthermore, the productivity growth rate in China's industry has long exceeded that of agriculture. This made the move to invest in secondary and tertiary industries more attractive. Another point of the development was that the shift toward the secondary and tertiary industries was quickened. Compared to 1984, the amount of manpower engaged in primary industry in the rural areas dropped by 9.6 percent in 1988, while that engaged in secondary and tertiary industries was increased by 7.1 and 2.5 percent. While the amount of manpower

undertaking primary industry was decreasing, the quality of the laborers dropped sharply. Under the circumstances where there were no significant changes in agricultural production technology, there was a large scale shift of laborers, particularly in areas where the rural economies were yet to be developed. This was a major reason for the sharp drop in agricultural production.

2) A shift of distribution of resources toward nonagricultural areas in the rural areas brought about changes in the composition of output in these areas. These were mainly: 1) There were changes in the internal structure of the planting industry. The proportion of output value of grain to that of the planting industry dropped from 76.7 percent in 1978 to 58.1 percent in 1988. 2) Of the output values of agriculture, forestry, animal husbandry, sideline industry, and fishery, the proportion of output of the planting industry to that of agriculture dropped from 76.7 percent in 1978 to 55.9 percent in 1988, while its proportion to the other four industries increased from 23.3 percent to 44.1 percent. 3) In the rural areas' composition of industries as a whole, the proportion of gross output value yielded by agriculture to that by the rural society dropped from 68.6 percent in 1978 to 46.8 percent in 1988, while the proportion of output yielded by other industries increased from 31.4 percent to 53.2 percent.

3) The rate of changes in the composition of peasants' income became greater. The rate of changes in the composition of income is a comprehensive index indicating the extent of changes in the composition of income. Compared to 1984, the structural difference (difference between the largest and smallest portions) of the primary industry in the rural areas was negative 11.7, that of the secondary industry was 3.0, and that of the tertiary industry was 8.7. The rate of such changes (sum of the absolute value of structural ratio for a reporting period of various industries and that of structural ratio for the reference period) was 23.4. This rate was just 38.6 during the period from 1950 to 1983. Thus, we can see that the period from 1984 to 1988 saw the peak of structural changes in the income of China's rural areas. This was caused by changes in the relative prices of products made by different industries.

4) The selection behavior of peasants concerning investment deviated from the balanced direction of accumulation. A price readjustment may make producers readjust the distribution of resources by making reference in certain aspects to the price index on the basis of comparison of profits. However, because of the shortcomings of sturdiness and uniformity in price readjustment through administrative means, a rise in the purchase price of agricultural products could not flexibly manifest changes in the value of agricultural products, nor changes in the market situation. When distributing their own resources peasants did not take any social or economic risks so that the selection behavior of peasants caused them to deviate from the balanced direction and led them to move toward the critical value. The state therefore took risks at an excessively concentrated level

and there was the tendency to have great shocks, which thus affected the normal development of the national economy.

IV. Response by Peasants to the Effects of Price Changes

1) Between 1979 and 1984, the strong stimulation of agricultural products obviously brought benefits to peasants. In 1979, the state comprehensively readjusted the purchase price of agricultural products, and sharply increased the purchase prices of 18 categories of agricultural and sideline products, including grain and cotton, so that the purchase price index for agricultural and sideline products that year was increased by 22.1 percent. In 1984, the general purchase price index for agricultural and sideline products was increased by 53.73 percent. After conducting a detailed investigation into the 1987 proportion of the amount of accumulation made by peasants to the expendable portion in their income, we found that for peasants whose per capita income was below 100 yuan, the rate of accumulation was about 5 percent; for peasants whose income was below 300 yuan, the rate was on average below 10 percent; for peasants whose income ranged between 300 and 700 yuan, the rate was between 10 and 20 percent; and for those with income between 700 and 2,000 yuan, the rate was between 20 and 40 percent. For those whose income was over 200 [amount as published] yuan, the rate of accumulation was more than 40 percent. We plotted a curve to show the accumulation of income by using figures indicating the expendable portion in the net income earned by each peasant against those indicating the sources of income and we took this curve as a normal projection of investment in production by the peasants. It showed that the rate of accumulation, which was based upon a preliminary calculation of the peasants' net income level in recent years, fluctuated next to this curve. This means that the selection behavior concerning investment deviated from the balanced direction of accumulation. This directly brought about excessive growth in agricultural production between 1979 and 1984. Within these six years, the annual grain production growth rate reached 4.95 percent, an increase of 1.48 percent compared to the average growth rate for the previous 29 years before 1978. The annual growth rate of cotton and sugar output, and the amount of pork consumed, were respectively 9.33 percent, 12.31 percent and 5.36 percent or increases of 13.71, 4.69, and 1.83 percent compared to the average growth rate for the 29 years before 1978. Peasants obviously benefited from the price rise in agricultural and sideline products. In 1979, as a result of these price rises, the peasants' per capita net income was increased by 12.25 yuan, or 46.1 percent of the increase in their net income for that year. During the 6 years prior to 1984, the per capita income of peasants derived from the price rises in agricultural products was increased by 51.2 yuan, or 23.1 percent of the gross net income for the same period. After deduction of 9.73 yuan increased expenses due to price rises in the means of agricultural production, the amount of peasants'

income following the price readjustment was still as much as 41.47 yuan. If it was further deducted from the price rise in consumer goods for daily use, the increased net income amount was as high as 4.86 yuan.

2) Between 1985 and 1987, the stimulation effect of the price rises in agricultural products was weakened so that peasants benefited little. When the purchase price of agricultural products was sharply raised in 1979, their selling prices remained unchanged so that the balance in demand and supply of agricultural products was upset. Those benefits which peasants received from the price rises were gradually offset by sharper price rises in industrial products and all kinds of intermediate charges. Though the purchase price of agricultural and sideline products continued to rise at an annual rate of 9 percent between 1985 and 1987, or an increase of 1.7 percent compared to the average growth rate between 1978 and 1984, this did not push a corresponding development in agricultural production, nor bring more benefits to peasants. The output of grain and cotton during these three years dropped at an average rate of 0.83 percent and 9.72 percent. Though the output of oils and sugar increased, the output growth rate reduced by 12.14 and 5.41 percent compared to the previous 6 years. The per capita net income of peasants was increased from 355.55 yuan in 1984 to 462.55 yuan in 1987, an increase of 107.22 yuan. This included an increase of 56.45 yuan in the prices of agricultural and sideline products, or 52.6 percent of the increased net income. At the same time, because of a simultaneous price rises in the selling prices of industrial products, there was a "return" of benefits. Peasants spent a total of 53.15 yuan on the means of agricultural production and consumer goods for daily use. After balancing the increased income derived from the price rises in agricultural and sideline products, each peasant actually gained 3.3 yuan, a net gain of 1.1 yuan per year. Compared to the per capita amount of 4.86 yuan gained between 1978 and 1984, it was reduced by 3.4 times. This situation dampened the interests of peasants for increased production or accumulation. A direct manifestation of this was an obvious bias in investment behavior. A survey showed that the sum of investment in productive fixed assets made by peasants was maintained at a constant level during these 3 years. Its proportion of overall expenses dropped from 3.8 percent in 1985 to 3.4 percent in 1987. Meanwhile, the sum of investment in nonproductive projects by peasants was increased. Its proportion of the overall expenses rose from 7.9 percent to 9.6 percent.

3) The stimulation in agricultural growth brought about by the 1988 price rises became ineffective, so that peasants suffered losses. Though the purchase price index of agricultural and sideline products was increased by a record 23 percent in 1988, it was peasants, who were both producers and consumers, who suffered losses because they directly bore the consequences of price fluctuations in society and because the price index of industrial products rose at a higher rate. In 1988 as a whole, the per capita net income of peasants was 545

yuan, an increase of 81.7 yuan compared to the previous year. This included an increased income of 60.23 yuan as a result of price rises in agricultural and sideline products. As there was a corresponding price rise in the means of agricultural production, and in industrial consumer products, each peasant spent 73.5 yuan more. If we further take into account a price rise of 7.73 yuan in labor services in the rural areas, each peasant suffered a loss of 5.54 yuan as a result of the price rises. Since the price of agricultural and sideline products was very low, the peasants' returns on investment were reduced so that they did not show much interest in investing in agricultural production. This was therefore a direct cause of the stagnation, or even negative growth, in agricultural production. A survey among peasant households showed that, in 1988, the per capita amount of grain production by peasants was reduced by 1.3 percent compared to the previous year, that of edible oils by 10.9 percent, and that of hemp by 1.6 percent.

V. Some Hints Indicated by the Relations Between the Price Reform and the Peasants' Income

1) Price readjustment through administrative means stimulated a growth in the peasants' income, so that the longstanding, rigid rural structure of interests was lubricated and activated. On the other hand, to a certain extent it put an end to the longstanding situation of having a shortage in supply of agricultural and sideline products, so as to lay a foundation for reforming the pricing system of agricultural products.

2) The functions of price readjustment in agricultural products were weakened in the wake of expanding the market mechanism. The rise of the secondary and tertiary industries, and the rigidity of comparative interests, put price reform in a dilemma. In terms of industrial products, there was a strong chain reaction to the large-scale price rises in, and the open price structure of, agricultural products, so that an obvious price rise tendency emerged after 1984. On the other hand, as the cost of investment in agricultural production was increased, peasants turned to industries from which they might get high returns so that agricultural production, and in particular grain production, dropped to its "bottom level." This led to tension in the basic effective supply in society and cast a shadow over the in-depth price reform. Changes caused by the increase in peasants' income also reflected the weakening price functions. Beginning in 1984, the proportion of increased income derived from the price rises to the peasants' net income margin was increased from 16.5 percent in 1984 to 73.5 percent in 1988, while the growth of output encouraged by price rises dropped from 60.3 percent in 1984 to 3.0 percent in 1988.

3) To rationalize price relations is an important condition for perfecting the relations of various economic sectors. Our experience over the past decade has proved that we must rationalize prices in order to intensify our reforms and to stabilize the development of agricultural production. We should further readjust the irrational

proportionate relations among various sectors of the national economy, which formed in recent years, and create conditions for rationalizing the proportionate relations among various products. Moreover, we should adopt corresponding protective measures for pricing agricultural products.

Footnote:

1. Price elasticity indicates the degree of flexibility of commodity prices related to changes in various influential factors. To indicate the reaction strength of changes in the price of industrial products taking agricultural products as raw materials to changes in the purchase price of agricultural products, so as to compare the ratio of changes in the price of agricultural products to that of industrial products. This is called the coefficient of price elasticity of agricultural products to industrial products taking agricultural products as raw materials. Its mathematical expression is: $\Delta P \text{ agriculture} / P \text{ agriculture}$ divided by $\Delta P \text{ industry} / P \text{ industry}$, in which EP is the coefficient of price elasticity of agricultural products, measured against industrial products taking agricultural products as raw materials. P agriculture and P industry are respectively the purchase prices of agricultural and sideline products and the price of industrial products taking agricultural products as raw materials. $\Delta P \text{ agriculture}$ and $\Delta P \text{ industry}$ are their price rises. When EP is greater than 1, it is said that the agricultural products, measured against industrial products taking agricultural products as raw materials, are elastic. Thus, when EP is smaller than 1, it is said that agricultural products, measured against industrial products that take agricultural products as raw materials, are inelastic.

Shanxi Reaps Bumper Grain Harvest

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[Report by Cheng Yunde (2052 0336 1795): "Shanxi Reaps a Record Grain Harvest"]

[Text] On the occasion of the conclusion of the 5th Plenary Session of the 13th CPC Central Committee, heartening tidings poured in from Shanxi: Following the bumper grain harvest reaped last year, agricultural production increased in most of the areas this year. Grain output of the whole province totaled 8.791 billion kg, cotton output reached 53 kg per mu, and the peasants' per capita income exceeded 500 yuan. All the three targets hit an all time high. This piece of news was released by Secretary General Li Zhenhua [title as published], at a press briefing held by the provincial government yesterday.

In 1989, Shanxi's sown area of grain crops totaled 49.391 million mu, 1.3437 million mu more than the previous year; the sown area of cotton reached 1.793 million mu, 49,900 mu more than in 1988. Of the 12 prefectures and cities in the province, 9 recorded an increase in output. Of these prefectures and cities, the largest increase in

grain output was recorded in Changye city with the total output exceeding 1 billion kg, an increase of 15 percent over the record figure.

Viewed from natural conditions, the bumper harvests reaped this year are due to the normal weather. Rainfall has been moderate in most of the areas. Although the province has been hit by the natural disasters of spring and summer drought, hailstones, floods, and early frost, the whole province made arduous efforts to combat the disasters and made good use of the weather.

The attention of leaders at all levels, the close coordination of the departments related to agriculture, and the arduous efforts of the peasants constituted the essential factors for this year's bumper harvests. At the various critical periods of agricultural production, the principal party and government leaders at all levels personally took a hand in the work and organized, coordinated, inspected, and urged the relevant departments to promptly solve problems of the materials urgently required for agricultural production. The financial departments at the provincial, prefectural, and county levels tried by every means to allocate 110 million yuan to increase investment in agriculture. The supply of means of production for farming, prevention of plant diseases and insect pests, and use of electricity to combat drought, have all improved compared with the the previous year. Headway has been made in the building of farmland capital construction. According to statistics, the province put in 195 million laborer-days in farmland capital construction in the recent two winters and springs, broke over 300 million cubic meters of ground, and renovated and built 175,000 various kinds of projects.

The road taken to boost agriculture with science and technology played a good role in increasing production. The province popularized 10 new techniques including application of compound fertilizers, model cultivation, and fine breed in farming. All localities also implemented the group contract system which combined technology with materials and coordinated administrative command with technical services and material supply. This increased the overall effect of agrotechniques and farm materials. The province also organized the 8 macroagrotechnical projects which include the "111," "666," and "bumper harvest plan."

Sichuan Per Capita Income of Peasants 'Increases'

HK0912060889 Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 5 Dec 89

[Text] This year the per capita income of the peasants throughout the province has increased as a result of a good harvest in agricultural production. Their per capita

income from the first to third quarters of this year increased by 44.86 yuan over the same period of last year, the increase rate being 13.95 percent.

This year party committees and governments at all levels in the province have strengthened their leadership over agricultural production. Monetary, material supply, and transportation departments have provided funds and agricultural production materials for agriculture. The province has registered a rapid increase in grain production despite natural calamities. Surveys on some 5,000 peasant households in the province suggest that from the first to third quarters of this year, the per capita cash income of the peasants was 360 yuan; their income from collective operations and from sales of agricultural, forestry, and animal husbandry products increased respectively by 13.95 percent and 9.74 percent over the same period of last year.

Guizhou Reaps 'Good' Grain Harvest

HK1312093589 Guiyang Guizhou Provincial Service in Mandarin 2300 gmt 10 dec 89

[Text] This year, the rural economy of Guizhou Province has witnessed sustained development. According to a sample survey conducted by the Guizhou Provincial Urban and Rural Social and Economic Investigation Team, this year, the total annual grain output of Guizhou Province has reached 7.0824 million tons, which represents a 11.4-percent increase over that of last year, thus putting an end to the 4-year stagnation of Guizhou Provincial grain production. This is the second time that Guizhou Province has reaped a good grain harvest since 1984.

Due to this year's good grain harvest, the broad masses of the peasants in Guizhou Province are now actively selling their grain to the state in an attempt to fulfill the state quota. By 25 November, Guizhou Province had basically fulfilled the state grain purchasing quota. This year's good grain harvest has also given a powerful impetus to the development of Guizhou Province's animal husbandry. According to the statistics issued by various prefectures and cities, by the end of this year, the total number of livestock in stock will have reached 6.235 million, which represents a 50,000-increase over that of last year. This year has also seen a substantial increase in Guizhou Province's breeding industry and fishing industry in comparison with last year. According to an estimation, the total output value of Guizhou Province's township and town enterprises is expected to reach 3.8 billion yuan, which is an increase of about 10 percent over that of last year. Moreover, this year, the per capita income of Guizhou Province's rural population is also expected to increase by 11 percent over that of last year.

Ideological Stand of Public Security Personnel

90ON0205A Beijing RENMIN GONGAN BAO in Chinese 31 Oct 89 p 3

[Article by Gao Deyuan (7559 1795 0626): "The Public Security Ranks Are an Outstanding Force Trusted by Both the Party and People—A Survey Conducted in Two Provinces and One Municipality Involving Nearly 1,000 Cadres and Police"]

[Text] I recently accompanied a survey team from the Ministry of Public Security and the General Political Department to Jiangsu, Zhejiang, and Shanghai for the purpose of observing and studying the true ideological state of public security cadres and officers. Through connections made by leading cadres in political departments throughout the two provinces and one municipality, we held discussions with leaders at the grassroots level, cadres, and officers. Surveys were conducted in various areas, such as Shanghai, Hangzhou, Ningbo, Zhoushan, and Zhenjiang, involving nearly 1,000 cadres and officers. These surveys proved that the public security ranks are an outstanding force in the political arena, worthy of trust from the party and people. While looking at their present ideological state we came up with the following points of interest:

1. Having ideals and seeking them. Under the conditions of a developing socialist commodity economy, some people have encountered a so-called crisis of belief, with the result that these individuals "only look for money," have doubts about socialism, and their faith in communism wavers. However, the vast ranks of public security personnel have withstood this onslaught of erroneous thinking, have a good understanding of ideology, and display a high level of ideological and political awareness. In one group of 475 cadres and officers, when asked the question, "How firm is your belief in communism?," 70 percent responded that their belief was firm, 28.5 percent said that their belief was fairly firm. When asked the question, "How is your attitude towards upholding the four cardinal principles?," 78.5 percent said it was firm and unshakable, while 20.7 percent said it was firm. With regard to faith in communism and attitude concerning the four cardinal principles, not only did the vast number of cadres and officers in public security who are party members, leading cadres, middle-aged or older, and those highly educated give a response of firm, but a vast number who do not belong to the party or league, are young, and who have little education also set this as their ideal and are striving to attain it. The portion of cadres and officers who are not members of the party or league, are under 35 years old, and have an education level below junior middle school responded to the question about their attitude toward the four cardinal principles with a "firm" response by the respective percentages of 98 percent, 98.1 percent, and 99 percent. The number that chose "fairly firm" was negligible.

2. Uphold and support reform. The feeling we perceived while conducting the survey was that the vast number of cadres and officers support the current political and

economic reform. They displayed a great amount of enthusiasm and a clear understanding of the achievements attained during the last 10 years of reform. Of the cadres and officers surveyed in Shanghai, Hangzhou, and Ningbo, 93.1 percent felt that great results had been achieved in the reform and that the current situation in China's reform and opening up is either good or fairly good. Based on 60 percent of the cadres and officers surveyed from Zhoushan, 91.6 percent expressed that "during crucial periods of reform we must stay staunchly unified with the CPC Central Committee and be inspired with enthusiasm in order to survive difficult times." This shows that the vast majority of cadres and officers have full confidence in the reform. These cadres and officers are also extremely concerned about the reform of public security work; many said that they hoped the plans and proposals for this reform would coincide with social reform, that the pace of the reform would pick up, that it would expand, take a logical sequence, and that they would work hard to establish a unified people-police system.

3. Have the cardinal principles in mind and take the overall situation into account. Vast numbers of cadres and officers displayed a knowledge of emerging difficulties and problems encountered during the process of China's change from an old to a new system. They have brought the actual problems of excessive commodity inflation and the intensifying problems associated with living, such as housing, heating, children, and food, to the forefront and they possess the ability to endure a large amount of mental strain. When 420 cadres and officers taking the survey were asked the question, "How do you feel about the fact that during this current reform the burdens of living placed on some cadres and officers has intensified?," 70 percent responded that they supported the reform measures of the CPC Central Committee and believe that the party and government can appropriately solve problems that emerge in the reform. When replying to the question of, "What should be done about individual benefits being affected by the current reform?," 91.2 percent selected the response that we should keep the cardinal principles in mind and take the overall situation into account, and that personal interests must be subordinate to overall interests.

4. Fulfilling one's duty and showing respect. During our survey I was deeply moved by the cadres and officers at the grassroots level having a spirit of not seeking fame or gain and their hard-working, respectful attitude. Since the "stern suppression of the counterrevolution," public security organs have been in a continual state of alert, with one campaign following on the heels of another. Under adverse conditions, shortages in manpower, and having important tasks to perform, these public security personnel overcame difficulties, stood fast at their posts, added extra shifts and extra hours, and worked under extreme hardships. The 35 police of the Gaoxiang and Chenzhong police stations in Zhoushan worked 9,251 hours of extra duty in 1987, an average of 264 hours per person. The cadres and officers of the Huangpu public

security subbureau, the Shanghai County public security bureau, the Shanghai Hangyun public security bureau, and the traffic office averaged 35 extra shifts per person during 1988. According to the leading comrades of the two provinces and one municipality surveyed, basic-level police officers spend from one-third to two-thirds of their evenings each month pulling patrol duty or other work and have been in an overworked situation for a long time. The physical health of some officers is being adversely affected by this. A hospital in Nanjing performed physical examinations on 2,780 police officers and discovered that one-third of them had chronic diseases in various stages; this hospital feels that the quality of health of police officers ranks lowest in comparison to other professions. Despite the above problems, basic-level police officers still maintain a good outlook and enthusiasm in their work. Unknown to the public, they contribute all their efforts to protect and promote reform and opening up, and to obtain an understanding of the party, government, and people. During 1988 the party, government, and public security departments bestowed meritorious service citations, commendations, and awards to 689 groups and 6,046 individual police officers in Jiangsu, 112 groups and 5,344 individuals in Zhejiang, and 372 groups and 2,142 individuals in Shanghai. The masses praise these personnel by saying, "the world's ethics are deteriorating, but the people's police are still being good examples by staunchly remaining at their posts, taking risks, and leading an austere life in order to serve the people."

5. Enthusiastically accept duties and maintain a stable ideology. Even though the tasks of public security work are difficult, strict requirements are placed on personnel by law, and wages and treatment are not very good, the vast number of police are still enthusiastic about public security undertakings and are dedicated to their jobs. Based on surveys done on a portion of police in an area of Jiangsu, when asked the question, "Do you want to be transferred from this public security organ?," 90 percent said they were unwilling to transfer. A small number intended to transfer for a variety of reasons. According to some government and industry surveys, due to the difficulty of public security work, low pay, and poor conditions, one or two police from each area and city have turned in resignations. Some of these young police, after resigning and spending some time roaming around, have decided that public security is not so bad after all and have come back, wanting to return to their jobs.

6. Possess a high consciousness of hardships. The vast majority of cadres and officers possess a high degree of consciousness about the problems of an unstable public order, recognize the seriousness of this situation, and hope that effective measures are adopted that will bring the situation under control. Of 345 cadres and officers in a certain city who responded to the survey question concerning public order, only 4, or 1.2 percent, said that the condition of public order was good; 91 individuals, or 26.3 percent, said that public order was in a fairly stable situation; and 250 of the number surveyed, which

accounts for 72.5 percent, said that public order was in a grim situation. Among these 250 personnel who thought public order was in a grim situation, 31.6 percent believe that it will make a turn for the better, 53.2 percent are not optimistic and believe that public order will probably not improve, and 15.2 percent think that this grim situation will continue to worsen. Faced with this grim situation, public security cadres and officers have fully prepared themselves mentally, actively rectified administrative order, and dealt with unexpected occurrences. In order to safeguard the state while it brings things under control and to further the smooth implementation of reform these public security personnel have become of one heart and one mind to jointly pass through difficulties.

Justice Minister Discusses Judicial Administration

90ON0151A Beijing FAZHI RIBAO in Chinese
3 Oct 89 p 1

Article by Cai Cheng (5591 6134): "The New Course of Judicial Administration"]

[Text] Judicial administrative offices are an important part of China's state power and an instrument of people's democratic dictatorship. As one of the state law enforcement offices, judicial administrative offices occupy an important place in China's judicial system and the building of a legal system. However, because of historical factors, the development of judicial administration has followed a tortuous path. The Chinese Government established the Ministry of Justice in the early years of the PRC. In 1959, judicial administration offices were eliminated and this situation lasted for 20 years, until the end of the Great Cultural Revolution. After the 3d Plenary Session of the 11th Party Central Committee, the party and government placed great emphasis on building a legal system and in 1979, the party Central Committee and the State Council decided to reestablish judicial administration offices to strengthen socialist democracy and the building of the legal system. In October of last year, the State Council decided to strengthen the functions of judicial administration offices and among the "three-fixed" proposals related to the Ministry of Justice, indicated they wanted to strengthen functions in five areas: 1) To improve the function of participation in legislation, unifying the submission of drafts of laws, regulations, and regulatory documents by legislative departments and other units to the Ministry of Justice for their opinions and providing revised opinions, and, at the same time, to improve the legislative work of the judicial administrative system itself. 2) To improve the function of providing legal services for economic construction and the building of democracy and the legal system, providing guidance and supervision for legal advising within enterprise units, rural and township legal service offices, and social legal service agencies. 3) To improve the function of managing labor reform and labor education work, to further

improve reform quality and economic benefits, preventing and reducing crime and promoting social stability and unity. 4) To improve the function of managing grassroots foundation work, preventing civil disputes from turning into criminal cases. 5) To improve the function of popularizing the law in depth. To conduct survey research on enforcing the law and, reflecting the situation, present proposals to promote the implementation of laws and regulations on the foundation of studying and using the law. Under the leadership of the government and party at all levels, and with the basic line of the initial stage of socialism as the guiding principle, they have upheld "one center, two basic points"; and, through developing judicial administration professions in the 10 years since the judicial administration offices have been rebuilt, they have made a contribution to the building of a socialist democracy and legal system, long-term state security, and the safeguarding of the democratic rights of the people.

In the spirit of the relevant directives of the party Central Committee and the State Council, the Ministry of Justice and judicial administration offices everywhere in the country have concentrated their energies on carrying out the following tasks:

1. Labor reform and education through labor work have played an important role in consolidating people's democratic dictatorship. Marxism recognizes that the army, police, courts, and prisons are important parts of the state machinery and tools of class dictatorship. In a sense, a country is not a country without prisons. In terms of the class relationships at the present stage, the exploitative classes and system have been eliminated and class contradictions are no longer the primary contradictions in our society. However, class struggle still exists within certain areas and sometimes is extremely violent. Reactionary elements and other serious criminal elements still exist and they are general antistate, anti-social elements. If we do not exercise dictatorship over them, state political power cannot be strengthened and society cannot be made secure. In the early years after the founding of the PRC, China established reform through labor work for criminals and education through labor work for criminals who committed minor infractions. In the 40 years since the republic was established, China's work to reform criminals has made enormous achievements. We not only have successfully reformed a large number of historical counterrevolutionaries and major criminals, but have successfully reformed Japanese war criminals, Kuomintang war criminals, and the pseudo-Manchu emperor and other criminal elements. By depriving or limiting the personal freedom of criminals sentenced to death with the sentence suspended for 2 years, and with imprisoned personnel taken into custody for education through labor, the agencies responsible for reform through labor and education through labor have objectively eliminated the conditions of their continuing illegal crimes and danger to society. Through political, cultural, and vocational technical training, not only have these criminals admitted their crimes,

reformed their thinking and changed their stance, but also have developed the habit of labor and learned production technology. After their sentence is complete and they are returned to society, the overwhelming majority observe the law and are self-supporting. China's reform through labor and reform through education and its outstanding achievements have won universal praise from people nationwide and worldwide.

2. Building a socialist legal system is an enormous social system project whose overall demand is that "there are laws that can be followed, there are laws that must be followed, enforcing the law must be strict, and breaking the law must be investigated" as stated by Comrade Deng Xiaoping. The core of establishing laws and enforcing laws that are part of this is acting in accordance with the law. Education about the legal system and legal education that are under the jurisdiction of judicial administration offices is the establishment of a foundation for making laws, enforcing laws, and acting in accordance with the law. In the past 10 years, there have been great developments in China's legislative work. Eighty laws, including the new Constitution, several hundred administrative laws and regulations, and a large number of local laws and regulations have been formulated; and we have created laws that can be followed in important and fundamental areas of national and social life. Since 1985 we have been carrying out education on the law among our citizens nationwide to improve knowledge of the law by all cadres and the masses and to develop the habit of acting in accordance with the law. By the end of 1988, of the 750 million people or 68 percent of the nation's population, who are the target of national law education, 510 million are studying or have finished study. Of this number, 400,000 cadres above the county Corp level have generally studied the "10 laws and one regulation"; 9.3 million rank-and-file party and government cadres have basically finished study; 80 million persons among the 130 million enterprise employees nationwide have finished studying the "10 laws and one regulation"; roughly 90 percent of the university, middle, and elementary schools nationwide have begun a legal system education curriculum; 60 percent of the peasants targeted for law education have completed study of the stipulated content; and the Chinese PLA and Armed Police units completed the law education task at the end of last year and the end of this year, respectively. This has laid a solid foundation for improved understanding of the law by all people. The important and practical role it plays and its far-reaching historical significance will become increasingly evident as time goes on.

In the past 10 years the judicial administration offices have revived the higher schools of politics and law that were canceled during the Great Cultural Revolution, and local areas have established some politics and law management cadre academies, specialized law schools, and middle and specialized judicial schools and reform through labor police schools to create the large number of specialized talented persons to pursue people's democratic dictatorship work and law work. In the past 10

years, more than 500,000 political and law cadres have been trained, 15,160 students in this field, and 15,532 university and college students of law have been graduated. Correspondence law university and colleges, evening universities, and various law training classes have been started and a large number of college and university students have been trained, creating the conditions for growth in building the legal system and for putting governance of the country in accordance with the law on the right track.

3. In 1980, with the kind attention of Deng Xiaoping, Peng Zhen, and other revolutionaries of the older generation, China began to restore the attorney and notary system, to develop relevant laws and regulations, and to rebuild the attorney and notary ranks. In the process of reform and liberalization, attorney and notary work received a great deal of attention from the party and government and attracted the universal concern of the broad masses of the people. In governing rule by law and managing by law, attorney and notary work personnel tried to follow the advice of government and party committees at all levels. Judicial administration offices in many local areas became working bodies for the party's and government's implementation of rule by law. Municipal and county judicial bureaus and attorneys in some localities became government legal advisers, directly participating in management activities, assisting the government in applying law methods to improve macromanagement, so that government policy-making was based on the foundation of legal opinion. In developing a socialist planned commodity economy, the attorney and notary personnel and village and small-town legal workers provided such legal services as consultation, advice, acting in nonlitigious legal matters, acting as agents in adjudication and litigation, and certifying legal behavior or legal relationships. Attorneys participated actively in criminal and civil litigation as counsels for the accused to promote more accurate trying of cases and to protect the lawful rights of the accused. In 1988 the legal affairs offices grew to 3,743; there are now 31,410 attorneys, of whom 21,051 are professional attorneys; and there are 88,108 year-round legal advising offices.

In 1988, 2,884 notary offices were established nationwide. There are now 15,111 notaries and 3,987,200 items were notarized, including 357,700 involving foreign items. With the constant growth of the legal and notary profession, the area of services is constantly expanding and the role of judicial administration's legal service is becoming the focus of society's attention more and more every day.

4. People's mediation work, praised as the "eastern experience," is playing an important role in safeguarding social stability and preventing the intensification of conflicts. Seven or eight million civil disputes are mediated annually. Focusing on the fact that some homicide and injury cases in the current period are civil disputes that have intensified, the over 1 million mediation

committees nationwide are firmly upholding the principle of "combined mediation and prevention, with prevention in the leading position" to prevent disputes from being intensified into major cases, conscientiously studying the laws and characteristics of the intensification of civil disputes, and working to adopt corresponding countermeasures to prevent intensification has gotten on the right track of "prevention before the fact, prevention by following up the situation, selected key-case prevention, coordinated prevention, and comprehensive prevention." They have conscientiously summarized and promoted the experience among plants, streets, and villages in establishing joint mediation organizations, improved the building of mediation organizations in plant and mine enterprises, gradually formed a mediation information network, and constantly improved the forecast and control ability and the mediation success rate. In 1988 a total of 7,255,200 civil disputes were mediated, avoiding the possible deaths of 119,800 persons. They have made a contribution to preventing and reducing crime and safeguarding a stable social environment.

5. Judicial foreign matters and judicial assistance abroad have developed rapidly. Last year we signed judicial exchange agreements with the Federated Republic of Germany and with the German Democratic Republic, and are now moving forward on signing judicial exchange agreements with other countries. At the same time we have actively participated in activities in the realm of United Nations' human rights and in crime prevention and the criminal judicial area. The UN "International Conference on Youth Crime Prevention, Treatment, and Public Participation" was held in Beijing with very good results. We also held Sino-U.S., Sino-FRG, Sino-European economic law conferences, and the Sino-Italian economic law daily activity, and developed legal talent and judicial experience exchanges in many forms.

In the area of foreign judicial assistance, China has signed judicial assistance agreements with France, Poland, Belgium, and the German Democratic Republic. At the same time, we began negotiations on a judicial assistance agreement with the Mongolian People's Republic and have begun to carry out preparatory work for negotiating judicial assistance agreements with other countries. Through bilateral and multilateral cooperative relations, we not only have broadly popularized China's experience in building a legal system and policies with regard to opening up to the outside, but have also increased friendships with friends in the judicial circles of other countries, promoted mutual understanding and cooperation, and attracted more foreign capital and foreign businesses to invest and open plants in China, which has played a definite role in China's four modernizations.

6. We have strengthened building of police cadre ranks, constantly improving the quality of the ranks. Judicial administration offices are responsible for multifaceted tasks in building the legal system and the demands of the

political, educational, and legal specialization quality of police cadres are rather high. In the past 10 years judicial administration offices have been rebuilt to adapt to the needs of the current situation, and they have conscientiously stressed the political and professional education of police cadres, especially leadership cadres, and have carried out comprehensive training of judicial police cadres by levels, in multiple channels, and separately and at different time periods. There have been clear improvements in the education and specialized knowledge levels of leadership cadres at all levels. In terms of the general situation, the judicial administration system now has rather good ranks and among current judicial administration police cadres, 19.17 percent, or more than 75,000, have educations above college and university level, and 19.71 percent, or more than 77,000, have middle and specialized school education. Through the stern test of stopping disturbances and putting down counterrevolutionary rebellion in particular, at a critical time for the future fate of the party and nation, the broad ranks of police cadres resolutely obey the orders of the party Central Committee and the State Council, actively join in this struggle, and maintain unity with the party Central Committee ideologically, politically, and in action. The overwhelming majority of judicial administration police cadres have a firm stance, their stand is clear, they stand fast at their posts, and scrupulously carry out their duties and have demonstrated firm political standpoint and very high political consciousness, are

a strong rank that is loyal to the party, and loyal to the People's Republic, and can withstand the severe test of political storm.

Looking back on the tortuous path taken by judicial administration work and summarizing the major achievements made after 10 years of judicial administration work, we see clearly that judicial administration offices should achieve victories and growth in their work and under the leadership of the party and government. And, taking the line, principles, and policies since the 3d Plenary Session of the 11th CPC Central Committee as their guide, they are bound to uphold the four basic principles, uphold the policy of reform and liberalization to serve the strengthening of people's democratic dictatorship and long-term national stability, serve socialist economic construction and reform and liberalization, and serve making things easier for the masses of the people and safeguarding the lawful interests of the citizens. Currently, the task of judicial administration offices is enormous and onerous; under the guidance of the spirit of the 4th Plenary Session of the 13th CPC Central Committee, the broad ranks of police cadres of the judicial administration system should definitely intensify study, improve their knowledge, rouse their spirits, work hard, and with outstanding achievements strive for greater victories of socialism as a gift for the 40th anniversary of the PRC.

CENTRAL-SOUTH REGION

Guangzhou Citizens Accused of Political Apathy

90ON0070A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 199, 1 Sep 89 pp 26-27

[Article by Long Jun (7893 6511): "Tiananmen Incident Fails To Arouse Democratic Consciousness Among Politically Apathetic Guangzhou Citizens"]

[Text] Lingering Fear of the Cultural Revolution

Guangzhou is a very pragmatic city. After 40 years and many a political upheaval, the citizens have become politically apathetic and are preoccupied with personal pleasure-seeking. The younger generation is concerned only with the immediate and ignores the future. Its response to the surging democracy movement was not enthusiastic.

Some Guangzhou university students responded immediately to the string of nationwide demonstrations and rallies touched off by the death of Hu Yaobang [5170 5069 6721]. For the city as a whole, however, their actions were but a few sprays in the ocean. Fearful of the Cultural Revolution, citizens condemned the students' patriotic actions as "troublemaking" and were unhappy with them, worried that there would be a repeat of the Cultural Revolution. Most young people ignored the students' activities and continued to eat, drink, and be merry. Only a tiny minority of people believed they had seen a flicker of hope for China—the university students.

On 20 May, Li Peng [2621 7720] declared martial law in Beijing. The media in Hong Kong reacted immediately and roars of anger rose among the citizens of Hong Kong, awakening the hitherto somnolent people of Guangzhou with a start. University students took to the streets to demonstrate and began to receive more and more support from the citizens. But the citizens, still paralyzed by their Cultural Revolution phobia, were too frightened to take any action. They believed they had known the CPC well enough to realize that it was not something one should provoke. When it was all over, the party would certainly make them pay dearly. Disaster would then befall them.

At the time, a handful of students were fasting in protest outside the provincial government offices, attracting a large crowd of onlookers. Faced with this challenge and in an attempt to prevent the democracy movement from spreading, the municipal government at once circulated an internal document to all units banning all donations, marches, demonstrations, and expressions of support.

On 21 May, a rally in the name of the citizenry of Guangzhou finally appeared in the streets. The contingent of marchers was made up mostly of young people. The democracy movement was beginning to involve a slightly larger cross-section of society. In preparation for the event, public security personnel stationed themselves at major intersections along the route followed by the

march and kept out all vehicles so that the demonstrators could pass through safely. I saw several members of the public security forces cheer the marchers as a sign of support. The marchers did not gather at and set out from a single designated spot. Instead, I saw three groups marching off in three separate directions. A Jinan University student told me that they were beginning to feel exhausted after demonstrating all over town for days. But the citizens of Guangzhou now knew what was happening; the students' goal had been achieved.

March by Guangzhou Citizens Not Enthusiastic

The demonstration in Guangzhou was orderly. The column of marchers, preceded by a brightly colored banner, included people pushing their bicycles, especially at the end. Most of the banners were made of old fabrics from window curtains and bed sheets and had expressions like "Down with Li Peng" and "We demand democracy and freedom" written on them in ink. Some of the words were beginning to fade after being buffeted by wind and rain for days. Among the numerous slogans, the one that really stood out was "Xiaoping is a dictator, Li Peng is a lackey, and Shangkun is a fool. All go to hell." The marchers shouted "Down with Li Peng," which was widely echoed among the crowds. In contrast, "Down with Deng Xiaoping" did not strike a responsive chord; people were still hopeful about Deng Xiaoping.

Meanwhile, on campus, those Hong Kong students who had initiated the student movement had withdrawn. Some Hong Kong students, intimidated by Li Peng, had returned to Hong Kong immediately and the leadership of the student movement fell on the shoulders of mainland students, most of them Putonghua-speaking students from out of town. In China, the urban-rural schism is not a new problem, but the reform and open policies have brought about a division between north and south as well. Reports say that in some northern provinces people are sharply critical of Deng Xiaoping for his preoccupation with the development of Guangdong and his disregard for the life and death of northerners. In view of this conflict between north and south, northerners are naturally more enthusiastic than southerners about the fight for democracy and freedom and the campaign against official corruption, an enthusiasm shared by northern students studying in Guangzhou.

On 21 May the Guangdong provincial government issued an order and declared its support for Li Peng. In fact, however, we saw public security personnel open a way for the crowds and be highly tolerant of the students' actions. There have been no large-scale arrests even as of today. Given the overwhelming importance of preserving Guangdong's prosperity, the province was anxious to prevent unrest and tension, which will undermine its economic interests. Governor Ye Xuanping [0673 6693 1627] of Guangdong recently told foreign visitors that he hoped Beijing would lift martial law soon to salvage the tourist industry. Does the conduct of the Guangdong government demonstrate that, out of consideration for local interests, local cadres might not enforce

central orders and instead respond to them superficially to show a semblance of party unity? The position of the Guangdong government suggests that it supports the central government while stressing prosperity and stability.

Citizens Dare Not Take Actions

Four days after Li Peng delivered his speech, it was studied in all units in Guangzhou. Reportedly, an engineering company demanded that every worker declare whether he supported Li Peng. It turned out that everybody was for him, so the company was able to accomplish the mission handed down from the CPC Central Committee. Sino-foreign joint ventures, however, did not convene such meetings.

On 23 May, the "Guangdong, Hong Kong, and Macao Patriotic Democracy Mass Rally" took place in Guangzhou. Most of the marchers were Guangzhou students, who formed the backbone of the rally, together with students from Hong Kong and Foshan. Other participants included reporters from various newspapers, people from the intellectual community, and workers. One group marched under the banner "Eastern Nanhai Petroleum Company," another "The Workers of Guangzhou." Besides the usual slogans, the marchers also shouted "Deng Xiaoping is like the moon. He is different on the 1st and 15th of the month." After the mass rally, all signs suggested that Li Peng had seized power. The crowds in front of the provincial government offices were sparse and the fasting students were long gone. Now and then a student could be seen distributing dozens of leaflets. The armed police outside the provincial government offices had been withdrawn, leaving behind a nylon rope to cordon off the area.

The Beijing massacre occurred in the wee hours of 4 June. By noon, people from Zhongshan Medical College had spread the word by putting up posters on the streets as a sign of protest. Unfortunately, they had limited funds and could not print more copies to cover the entire city to inform every citizen. All they could do was to put up a few announcements about the massacre on busy streets. After hearing about the massacre from Hong Kong news media, the citizens talked about it endlessly but dared not make any move. Crowds again gathered outside the provincial government. A bright-red big-character poster announcing the formation of a "self-government council of Guangzhou workers" went up on the wall facing the provincial government building. That evening another rally took place in the city and crowds blocked all bridges in an attempt to prevent workers from going to work and to force a strike. Regrettably, the workers crossed the river by boat instead and went to work as usual.

Quick Return to Normalcy

Angry crowds put up the latest Hong Kong newspapers and slogans along the major thoroughfares in Guangzhou.

During the movement, Guangzhou students were anxious to have workers join them. The latter, however, never got involved. In my opinion, Guangzhou students did not do enough propaganda and were less than sincere in their participation. Take the mass rally, for instance. They acted as though they were at a carnival and did not make the most of the event. After blocking off a bridge, some students listened to music on the bridge. How could such behavior move the workers? After tying up traffic, they failed to fully explain to workers the significance of their actions. Even more serious, after some student leaders learned that Hong Kong money was available to support Guangzhou students, they went so far as to set up a separate organization in hopes of getting the money.

After Beijing issued a wanted circular, the Guangzhou government took a series of moves. In the small hours of the morning, four public security posts were set up along the highway from Dongwan to Guangzhou—one in Dongwan, one in Huangpu, and two in the Guangzhou suburbs—to inspect all the vehicles entering or leaving the highway. After a week, all four posts were removed. On the Guangzhou-Shanghai Railway, one attendant, two public security policemen, and one member of the railway security force, all armed with pistols and flashlights, closely examined the papers of each passenger. Two weeks later, only the attendant and railway security personnel remained to do random checks on the passengers. Three weeks later, everything was back to normal. Nobody disturbs your sleep on the train anymore.

In the city, all the major hotels have a desolate, cheerless look. The old prosperity has gone. Vehicular traffic along the main arteries of transportation has diminished. The number of vehicles coming from the countryside has fallen off sharply. The flow of traffic is smooth. According to a cab driver, his business has declined by 50 percent or so.

Over a month later, city life in Guangzhou has returned to normal. Traffic is busy and people go about their daily lives as usual. But there are fewer compatriots from Hong Kong and the hotel business is still stagnant. Reports say a number of major hotels have laid off some temporary workers to tide themselves through this difficult period. It is unfortunate that while Beijing students have sacrificed themselves, they have still failed to awaken the citizenry of Guangzhou to the bloody disaster so that they will work to prevent a repetition of this act of suppression through democracy.

Economic Impact of Tiananmen on Guangdong Villages

90ON0070B Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 236 1 Sep 89 pp 30-32

[Article by Shi Hua (2457 5478): "Guangdong Villages After Tiananmen"]

[Text] The most obvious effects are felt in the economy: All trades and businesses have fallen into a slump, hotels

are empty, travel agencies spend everyday handling ticket cancellations, and township and town enterprises are operating at half capacity. All townships are equipped with public antennas to receive television broadcasts from Hong Kong. Everybody knows the truth about the 4 June incident. After "studying," however, some cadres have changed their views.

The 4 June incident shocked the world and filled Hong Kong and Overseas Chinese with grief and indignation. Many people think the brutal regime of Deng Xiaoping, Li Peng, and Yang Shangkun must be overthrown. Nevertheless, not a few people believe that the peasants of China would not support a democracy movement because they have benefited tangibly from reform and because they do not know the truth about what happened in Beijing and have seen only the official propaganda videotapes. And it is the peasants, who account for 70 to 80 percent of China's population, who form the bedrock of the present regime.

How has the Chinese countryside really changed in the wake of Tiananmen? Do the peasants know the truth about what happened? What follows is an oral account by a secondary school teacher from Hong Kong. He visited the villages and townships in several Guangdong counties in July and August and also lived in Guangzhou for some time, so he has some understanding of the conditions in the Guangdong countryside.

Prosperity Gone, All Trades Depressed

Of course, the Guangdong countryside is not typical of the country as a whole. In particular, the Zhu Jiang delta, which this teacher visited, has very different villages from those in other provinces. Having said that, they are all Chinese villages and share some characteristics: The cadres are poorly educated but enjoy extensive power in the countryside. Control by the central and provincial governments is relatively loose. The individual economy and village-run and township enterprises were flourishing. Therefore, these villages are representative of some conditions of the Guangdong countryside after the 4 June events. Below is a record of his oral account:

I visited Guangzhou and the Zhu Jiang delta last March also. When I went back 4 or 5 months later, in July and August, the most shocking thing was the depressed economy and the decline in all trades. The economic prosperity in Guangdong brought about by reform and the open policy seems to have disappeared overnight.

Take the hotels in Guangzhou, for instance. The occupancy rate is very low, even though room rates have been discounted from 30 to 50 percent. I entered a hotel for foreign visitors and the reception desk offered me a 30-percent discount without my asking, something which has never occurred before. A guest I met at a hotel had her room at 40 percent off, the result of hotels competing for business. She made the reservation at the hotel service desk at the train station. A friend of mine stayed at Guidu Hotel. His room was discounted 50 percent. I saw a complimentary copy of BEIJING

ZHOUBAO in my hotel room. It was published in late May, which means that the room had not been occupied since the end of May. Stepping out of the hotel at night, I looked up at the building and saw only 20 or so lighted windows.

The same is true for village and township hotels in Xinhui and Taishan. First-class hotels in Jiangmen, such as Qiaodu and Fengjiang, also gave me 10 percent off. But hotels in Panyu, Nanhai, Zhongshan, and Shunde, offered no such deals, probably because the four counties (Xinhui, Taishan, Kaiping, and Enping) are the homes of Overseas Chinese in the United States and Europe, few of whom have come back to visit after 4 June. In contrast, counties like Nanhai and Zhongshan are the home of people in Hong Kong and Macao, who continue to visit China in large numbers.

Like hotels, ships and trains are no longer crowded. In the past, a ship or train ticket for a trip from the mainland to Hong Kong was hard to come by, however much you were willing to pay. These days, tickets are available even right before departure.

An old classmate of mine works in the China International Travel Agency. He told me that he was busy in June and July, not receiving tourists, but handling canceled tours. Almost all group tours were canceled in June and July, just at the normal peak tourist season.

Some tourist resorts are almost deserted. Some museums in Guangzhou, for instance, used to make a tidy profit selling admission tickets and souvenirs. After June, however, they could not even cover their expenses. Even Japanese tourists are staying away. There are tourists from the interior, but they have no money to spend.

The cab business has also been affected. Last March I waited a long time for a cab outside a hotel because the line was long. Now I could get a cab as soon as I stepped outside. A cab driver told me that he often had to wait half an hour before he could find a customer.

Things are just as bad for department stores. Another former classmate of mine works in a municipal department store in Guangzhou. He said his store earned more than 10 million yuan in profits last year, but barely managed to break even in the first half of 1989. Actually, it did make a profit in the first quarter, which all went to cover the losses in the second. The store manager spent every day wracking his brains, searching desperately for something for his employees to do. If they stay idle for long, things would get out of control.

People who operate pedicabs, which carry both passengers and cargo, have also been hard hit by the 4 June incidents. According to a self-employed pedicab driver in Zhongshan, his business has dropped 40 percent since Tiananmen. And the situation in Zhongshan is better than that in other townships.

Enterprises Operating Under Capacity; Nonlocal Labor Repatriated

Townships and towns in the Zhu Jiang delta are studded with factories owned by Hong Kong and Macao people, as well processing enterprises, which are Sino-foreign joint ventures. Many of these enterprises and factories are now semiclosed. In July and August most opened for only a dozen days or so each month. Since Tiananmen, raw materials from foreign merchants remain in Hong Kong as the foreigners are unwilling to ship them inland. The workers have nothing to do and scheduled expansions and investments have also ground to a halt.

The doldrums in township industry are caused mainly by Li Peng's belt-tightening policy. As the money supply contracts, orders from the north to Guangzhou township and town enterprises have dropped off sharply (a large part of the output of local township enterprises is actually destined for northern China), while the Hong Kong market has also softened since 4 June. A township in a county in Nanhai has six or seven metal factories, almost all of which have now suspended operations. The owners of some village-run enterprises curse Li Peng endlessly, saying that he has not done a single good thing since coming into office.

Because of the downturn in industry, some villages and townships in Guangdong have also turned back nonlocal labor. Previously there were workers from Guangxi, Hunan, Jiangxi, and Henan working in the Zhu Jiang delta area. Some "shoe-repair women" from Zhejiang could also be found. After 4 June, as factories began operating under capacity, some villages and townships began to expel nonlocal labor in June and July. Take a township in Zhongshan, for example: All nonlocal workers were repatriated unless they had received local work permits before June. Repatriation means putting these workers on an outbound bus and dropping them off at a remote spot (such as the border with a neighboring county), warning them not to come back. Besides the need to protect job opportunities for local people, nonlocal workers are reportedly being expelled out of a fear that they may get together and commit crimes since they have neither work nor family in the area.

As a result of the economic retrenchment policy, the prices of upscale consumer goods in both urban and rural areas in Guangdong have been declining. A remote-control detached Mitsubishi air-conditioner is now selling for a little over 7,000 yuan, down from 13,000 yuan before 4 June. A pack of Marlboro cigarettes now costs 5 yuan, down from 7.50. In a related development, the exchange rate between the Hong Kong dollar and renminbi on the black market has fallen from a high of \$1:1 yuan to \$1:0.85 yuan. Obviously, this is because people now have less money to buy Hong Kong dollars and to spend on imported consumer goods.

"Official Profiteering" and Popular Opposition to Li Peng

While upscale consumer goods have become cheaper, the prices of daily consumer goods, particularly nonstaple

foodstuffs, have been rising for more than a year and are the cause of bitter complaints by people in the countryside. Take a village in Zhongshan, for instance. The per capita income here is 200 yuan per month. Since May 1988, a bag of laundry detergent has risen in price from 0.20 to 0.40 yuan; salt, from 0.28 to 0.60 yuan per jin; pork, from 3.50 to 6.00 yuan per jin. Price increases of this magnitude are really intolerable to a family with a monthly income of 200 yuan. Local cadres say it costs at least 100 yuan to feed and house a person per month.

Some township chiefs in the Zhu Jiang delta are of peasant origin and a number of commune directors are almost illiterate. Because of reform, the open policy, rising foreign investment, and a booming tourist industry, these people were able to engage in profiteering and made a killing. They live in villas and move around in cars. Some have even had a road or bridge built between their villas and their township office. These roads and bridges have been dubbed "New Official Lane" or "New Official Profiteering Bridge." In the villages and townships, these people behave like local despots. When a family member commits a crime, he is bailed out and there is nothing the court can do to stop it. Villagers are disgusted with these bureaucrats, calling them "mo tuo che" or "motor car," which means that they "chuai mo" (try to fathom) the wishes of their superiors, "tuo" (hold) their superiors' legs (curry favor with them), and are adept at "che da pao" (boasting).

The villagers are naturally unhappy with these official profiteers, but unlike the students and citizens of Beijing, they harbor no bitter hatred for them. The reason is that, although these people made a killing, the people below have also benefited. Their profits may be smaller, but they are now living better than they did. For example, the localities have prospered. Even the self-employed pedicab driver made 50 to 60 yuan a day. Of course, now he makes only 30 to 40 yuan. Both village officials and ordinary citizens alike are opposed to Li Peng's belt-tightening policy. Recently, the central government called for a crackdown on official profiteers. There are press reports that several central-level major official profiteers, like Keng Hua, Zhongxin, and Guangdong, have been fined tens of thousands of yuan. Local cadres call this an example of "letting the big fish go." For central-level profiteers, tens of thousands of yuan are nothing. The local people are worried that after thus posturing, the central government would then tackle the localities. Not only would official speculators suffer, but foreign investment and the economy would also hurt.

Everybody Knows the Truth About Tiananmen

Some people overseas have called for economic sanctions against China. Beijing citizens, especially the family members of the victims, may approve of sanctions because sanctions will do no perceptible harm to them. In the Guangdong countryside, so obviously dependent on foreign investment and tourists, proponents of economic sanctions are deeply resented and condemned as "unpatriotic" and "lacking nationalism."

It is said that Chinese peasants do not know the truth of the 4 June event. I made a trip to the villages in the Zhu Jiang delta and got this answer: Just about everybody knows the truth.

The reason, of course, has to do with the news media of Hong Kong. Almost every village receives Hong Kong television broadcasts via a public antenna. In the past, you could receive Hong Kong radio broadcasts on buses and in cabs. After 4 June, people dare not tune in to Hong Kong radio stations on a bus, but still they know what happened. One day I was riding in a cab. The Guangdong radio station was broadcasting Chen Xitong's [7115 1585 0681] report on the "suppression of the rebellion." After martial law was declared in Beijing, it said, "demonstrations and marches went on endlessly. The capital is enveloped in chaos and terror." The cab driver was so furious that he turned off the radio, shouting, "Terror? Speak for yourself."

After they found out the truth, what did they think of the events? Almost everybody sympathized with the students. An elderly high school teacher expressed utter disillusionment with the Chinese Communist regime and felt that he had been deceived his entire life. Now he has a gloomy view of life. A high school principal also sympathized with the students, but he refused to believe that the PLA had killed so many people, thinking that the casualties had been exaggerated. He and his son (a high school teacher) have had heated arguments over this.

As party members, village and township cadres were required to study Deng Xiaoping's speeches and Chen Xitong's report for 10 days. But most of them fell short; some studied for just 1 day. Even after studying, village cadres still believed what they saw on Hong Kong television, even the commentary. After "brainwashing," however, they have modified their original opinions somewhat: First, which came first, official suppression or student rebellion? They used to think that it was the former. After studying, they suspected that student violence preceded official suppression. The Army moved in only after student riots proved intolerable. Second, they sympathized with the students' demands. After studying, however, they felt the students probably had gone too far. They went about it in the wrong way and ruined everything.

Young people, on the other hand, believe completely what they saw on the screen. In private, they all condemn the inhumanity of Chinese Communist rulers. It is very common to find a father arguing with his son over this.

Some village and township cadres blame the current economic stagnation on the student movement. Instead of condemning official suppression, they criticized the students for starting the movement. They said, "The student movement ruined us. They got us into trouble. Now we cannot do anything."

For the majority of villagers, the biggest impact of Tiananmen was the terror they felt that day and for a few

days afterward. They reacted directly by purchasing rice and salt in panic. When negotiated-price rice (rice bought from the state at a higher price, about 25 yuan per dan) was sold out, they turned to expensive rice (sold by private individuals, a bit more than 100 yuan a dan.) In some villages and townships, all the rice was snapped up. Today, one problem facing the villagers is overstocked rice going moldy because of the humid weather. Some people who sold overpriced salt at the time have also been fined.

Because of its affluence, the Guangzhou countryside did not face the same set of problems as the north. Thus, it did not respond enthusiastically to the student movement. Reportedly after 4 June, the CPC Central Committee demanded that military and police units across the nation each select a few models to send to Beijing to receive an award. Guangdong could not come up with anybody. Finally they had to turn to a local police station in the Liwan district in Guangzhou—which was not even on the route of any rally—and randomly picked a couple of public security personnel and sent them to Beijing to make up the number.

At the peak of the student movement, however, Guangzhou's college students also went to the countryside to establish contacts there. In one village, for instance, I saw an announcement on the arrest of members of the village branch of the Guangzhou alliance of students of institutions of higher education.

The greatest impact of 4 June on the Guangdong countryside was economic. In addition, cadres and intellectuals have lost all trust in the central leadership. The reason is that they know the truth. So do workers from other provinces. They will go home and spread the word in villages everywhere.

NORTH REGION

Tianjin Officials Act To Wipe Out '6 Vices'

SK1912102589 Tianjin TIANJIN RIBAO in Chinese
29 Nov 89 p 1

[Text] The municipal leading group in charge of wiping out "six vices" held a meeting on 28 November. The meeting emphasized promoting progress in the struggle against "six vices" on the crest of a victory and called for making unremitting efforts to deeply carry out the struggle.

Following the State Council and municipal telephone conferences and since promulgation by the municipal government, the broad masses of the people throughout the municipality have thrown themselves into the struggle against the "six vices" and have exposed clues for more than 3,400 criminal cases. A total of 712 persons registered themselves with public security organs. In close cooperation with publication, audiotape management, cultural, and industrial and commercial departments, the public security organs have intensively

investigated and attacked the criminal activities of prostitutes and those who frequent whorehouses, and the production, sale, and spread of obscene goods, and have achieved major results in this regard. The public security organs tracked down 2,675 criminal offenders who engaged in these activities; smashed 895 gangs of criminals; and recovered 3,072 pornographic video tapes, more than 6,000 copies of reactionary and obscene books and magazines, nearly 500 pornographic pictures and photos, 104 decks of obscene poker cards, 626 gambling devices, and more than 269,000 yuan of gambling money. All this effectively shocked criminal offenders, educated the masses, and helped purify the social environment.

The meeting maintained that, although noticeable results were made in the struggle during the preceding stage, the development of the struggle has not been even. There are still some weak links and some places where the struggle has not yet been launched. Some units, particularly grassroots units, failed to launch the struggle on a large scale. Meanwhile, we have not done enough to investigate key areas, units, and personnel.

Lu Xuezheng, member of the Standing Committee of the municipal party committee and head of the municipal leading group for wiping out "six vices," chaired and addressed the meeting. He stressed that, based on noticeable achievements made in the preceding stage, we should continue to extensively and deeply conduct propaganda and to mobilize the masses to fully understand the great significance of the struggle against the "six vices"; really regard the struggle as an important measure for carrying out the guidelines of the 4th and 5th Plenary Sessions, an important aspect of building socialist spiritual civilization, and an important factor for opposing bourgeois liberalization; and realistically attend to it. We should fully understand the harmfulness and seriousness of the "six vices." He said that, although the problems of "six vices" in Tianjin are not so serious as those in other places, such problems did exist and were discovered in the municipality. Some of them were even quite serious. So, we must not lower our guard, become careless, or slacken our work.

Lu Xuezheng pointed out that we should conscientiously implement the policy of being lenient to those who confess their crimes and harsh to those who refuse, extensively disseminate the guidelines of the "notice" of the municipal government, and firmly attend to investigating, hearing, and handling cases. Strict penalties should be imposed on those who should seriously be punished due to their serious cases, and lenient punishment should be given to those who should be punished leniently. Only when we carry out the policy of linking leniency with strictness and bring into full play the power of policies can we effectively mobilize the masses to isolate and deal blows to the handful of incorrigibly obstinate criminals. He urged leaders at various levels to strengthen realistically the leadership over the struggle, adopt measures for deeply, thoroughly launch the struggle within their own units, set up systems in the

course of the struggle, and strengthen the management of the struggle. Meanwhile, we should persistently handle cases according to law.

NORTHEAST REGION

Heilongjiang Party Journal Reports on Corruption Cases

90ON0064A Harbin FENDOU [STRUGGLE] in Chinese No 9, 1 Sep 89 pp 25-27

[Article by Zhang Jiye (1728 0679 8518): "Reflections on the Public Trial of Seven Department- and Bureau-Level Heilongjiang Cadres"]

[Text] The Heilongjiang provincial party committee and government held a general meeting in the theater of the Heilongjiang Exhibition Center on 8 July 1989 to publicly try cases of law and discipline violation by leading party cadres. The following cadres were expelled from the party and punished according to law by judicial organs: Yao Zhiwu [1202 1807 2976], former deputy director of the Dongmei Capital Construction Commission, for embezzling 20,000 yuan in "sales commissions" from capital construction project contractors; Wang Lizhong [3769 4539 0022], former director of the Heilongjiang Environmental Protection Bureau, for taking 19,000 yuan in illegal profits by speculating in petroleum chemicals; Guan Wenbin [7070 2429 1755] and Li Kexiang [2621 0344 4382], former deputy factory directors at the Daqing Petrochemical Works, for taking bribes of 27,000 yuan and 12,000 yuan, respectively. The following cadres were dismissed from all their party and nonparty posts: Wu Donghai [0702 2639 3189], vice president of the Heilongjiang TV station, for committing the errors of foreign exchange privatization and tariff evasion; Sun Huaishou [1327 2037 1108], general manager of the Heilongjiang Packing Corp, for diverting \$450,000 of swindled foreign exchange to build office buildings and living quarters and selling his state-owned apartment for 40,000 yuan. Jiang Chen [1203 5256], vice chairman of the board of the Heilongjiang International Economic and Technical Cooperation Corp and chairman of the board of the North China Taxi Co, was dismissed from his former posts and given a stern disciplinary warning within the party for taking more than 1.45 million yuan in illegal income by deciding without authorization to covertly sell 16 of his company's duty-free imported cars, and also for taking advantage of his official position to seek personal gain for his children. The public trial of these seven department- and bureau-level leading party cadres in Heilongjiang Province caused a sensation in the provincial capital of Harbin, evoked strong repercussions from both party and nonparty members that have not yet ended, and aroused in me the following reflections:

I. It Was Inevitable That a Strong Momentum Would Be Built Up To Resolve the Current "Major Issue in the General Situation"

The major reason why this public trial of seven department- and bureau-level leading party cadres in Heilongjiang Province has evoked such strong repercussions is that it shows the determination of the party and government to win the people's confidence. Exactly as the editorial in RENMIN RIBAO said, cracking down on corruption is the current "major issue in the general situation," and a certain momentum has been built up to root out corruption truly, boldly, resolutely, and on a grand scale.

Why have the CPC and the government of the PRC been forced to regard cracking down on corruption as the "major issue in the general situation?" This is because cracking down on corruption quickly and firmly by trying "a dozen or so" major cases has become a key link in stabilizing the political situation throughout China. The masses of people have seen that certain party cadres have not only stopped sharing the people's comforts and hardships, but have also taken advantage of the authority entrusted to them by the people to seek private gain at public expense. If things were to continue this way for very long, the people might feel that their status as the masters of their own affairs was devoid of meaning, suspect the party's aim of serving the people, and, thus, lose confidence in the party. The party might lose its vitality if it lost the people's confidence. A major reason why so many people were stirred up during the demonstrations in China from April to June 1989 was that the increase in corruption had caused a lot of them to lose their faith in the party and government. This shows the importance of cracking down on corruption.

Some comrades think that the current resolute and large-scale crackdown on corruption is, in a sense, carrying on a movement. They fear that trying so many leading party cadres might paint a dark picture of, and leave people with even less faith in, our party. In fact, their fear is unfounded, because the people's demands for a crackdown on corruption are not only extremely strong, but also very urgent. Just trying a number of major cases quickly and on a grand scale can make the people feel that the party and government have the determination and ability to crack down on corruption, effectively frighten the minority of cadres who are corrupt, slow the spreading trend of corruption, and reverse the situation that existed in certain localities and units of being alternately strict and lax, shouting slogans without taking any action, and making believe they were cracking down when they really were not. Since the existence of corruption is an objective reality, daring to crack down on it firmly shows that our party is confident and strong and, thus, can only leave people with more faith in the party. Whereas not daring to crack down firmly on corruption could only really leave people with less confidence in the party. The lack of understanding on this point has landed us in a passive position, the bitter consequences of which we can no longer stand.

II. It Will Be Necessary To Emphasize Priorities and Make Unremitting Efforts To Crack Down on Corruption

Since the public trial of these seven department- and bureau-level cadres in Heilongjiang Province, I have heard comments, such as "Since six of them were retired, it seems that it is easy to crack down on retired cadres but hard to crack down on those in office!" and "Settling accounts with such people does not count for much, since it is the fashion to crack down, and then on only those few who are 'unlucky enough to get caught.'" At least the following two issues are implied here: 1) Although people are satisfied that the government is giving priority to cracking down on cadres above the county level, they are even more hopeful that it will dare to crack down on those in office. 2) In cracking down on corruption, care must be taken to resolutely crack down on a dozen or so major cases, without simply "following the fashion" by cracking down on only those few who are "unlucky enough to get caught." Rather, unremitting long-range efforts must be made to continue the crack-down by trying cases of corruption wherever and whenever they appear.

There is no need to deny that corruption within the party has gotten out of control or that its grave danger and broad scope have become more shocking in recent years. It can be found among both upper- and lower-level cadres, major and minor officials, and those in both "official" and "nonofficial" posts. It is of the same nature and must be cracked down on whether it is found among upper- or lower-level cadres or major or minor officials. But priorities must be emphasized, that is, priority must be given to trying cases of law and discipline violation among leading cadres at all levels, and those above the county level in particular, for the following reasons:

1. The problems of law and discipline violation and sinking into corruption are certainly becoming increasingly serious among leading party cadres. For instance, 37 percent of the 4,927 cases of discipline violation within the party that were tried in Heilongjiang Province since 1988 alone involved administrative cadres, including 494 from the county level and 30 from the prefectural level. This shows that there are many cases and a wide range of discipline violation among leading cadres.
2. Since the leading party cadres who committed law and discipline violations usually held real power and were in leadership positions, the higher their position, the more damage they caused. They not only disrupted the great causes of reform and the four modernizations, but also caused a grave loss to the party's image and prestige and seriously weakened its cohesiveness and fighting capacity.
3. How firmly and strictly cases of law and discipline violation among leading party cadres are prosecuted will be the key expression of our party's and government's

determination and capacity to crack down on corruption. The deviations that appeared in our past struggles to combat corruption, such as "being unable to punish senior officials" and "swatting flies but not killing tigers," showed neither a real intent nor the capacity to crack down on corruption. Therefore, it will be necessary to emphasize priorities in cracking down on corruption by punishing mercilessly according to party discipline and national law all leading party cadres who violate the law and discipline, regardless of how high their post or who is implicated.

China is now in a great historic transition period of reform and opening up to the outside world, in which the soil, breeding ground, and loopholes that give rise to corruption certainly still exist. The PRC was founded in a semicolonial, semifeudal society, and still suffers from the impact of feudalism and capitalism. The absolute power of the CPC is apt to engender various harmful trends within the party that are divorced from the masses, and reform and opening up to the outside world have unavoidably confronted us with many new issues. For instance, the dual-track system, in which the market forces of a commodity economy play a simultaneous role with administrative power in our economic life, has provided conditions for an exchange of money and power between managers who have money but no power and administrators who have power but no money. Furthermore, since reform is a process of getting rid of the old to make room for the new, new conditions and new issues have emerged in an endless stream. Since corruption is constantly displaying new traits in its emergence, growth, and existence, we can combat it better only by constantly deepening our understanding of it along with developing circumstances. Moreover, certain reform loopholes and the many undeveloped conditions in our commodity economy that breed corruption can be eliminated only along with the gradual perfection of a new system and the development of a commodity economy through reform. All of these issues have determined that the anticorruption struggle will be a protracted one and that unremitting, long-term efforts must be made to crack down on corruption according to the principle of "being both firm and persistent."

Although it will certainly be necessary to conscientiously prosecute all cases of discipline and law violation in order to resolutely press forward the anticorruption struggle, alleviating the symptoms alone will not suffice. It will be even more important to get at the root causes of the problem by taking drastic measures instead of using ineffectual remedies. Only clarifying the roots of corruption and conscientiously studying and learning ways to effect a permanent cure can contribute to rooting out corruption, nipping it in the bud, and reducing its unnecessary damage. It is thus obvious that "taking the preventive measures" of cracking down on corruption severely and, even more important, preventing and eliminating it, would be positive steps. This will require us to take steps such as vigorously improving our legal system, institutionalizing "cracking down on corruption

and encouraging honesty," calling on the resourcefulness of the people to create a democratic form of socialist government, better publicizing our political and economic activities, and reinforcing supervision both by the whole people and also within the party. Only in these ways can we basically root out the things that breed and spread corruption. Thus, it would be unrealistic to either regard the current emphasis on publicly trying major cases as an expedient measure or to try to rely on one campaign alone to resolve the issue. To be frank, this would make it hard to even clear up people's doubts or win their confidence, let alone deal with the many cases that, due to various reasons, should have been tried but have not yet been uncovered, or those that have been brought to light but not yet placed on file for investigation and prosecution.

III. Communist Party Members Cannot Justify Themselves by Saying That They Were "Dazzled by the Appeal of Money"

What lessons can we learn from the mistakes of people, such as Yao Zhiwu? When I brought this question to my examination of Yao Zhiwu's dossier, I discovered his "personal self-criticism and justification," which I might as well quote here.

Yao asked in his confession, "How could I have committed such a crime in the period of reform and opening up to the outside world, after having passed all the tests in being nurtured as a party cadre for 40 years and going through the war years and all the various movements?" He then answered that, "Based on a tentative understanding derived from my self-examination while in prison, I think that the major reason was that my bourgeois world outlook had not thoroughly changed and I was dazzled by the appeal of money..."

Since Yao Zhiwu admitted to being "dazzled by the appeal of money," it is not hard to conclude that others were as well, even though they evolved and manifested it in different ways. This shows that "being dazzled by the appeal of money" was a major reason why they lost their political bearings and went astray during the period of reform and opening up to the outside world.

The major test for people during the period of reform and opening up to the outside world has been the choice between power and money. Experience has shown that the choice between money and power is sometimes more severe a test than that between life and death. But why did certain veteran party cadres, who had passed the test of charging under heavy fire, lose their heads and bearings? That they "allowed themselves to be dazzled by the appeal of money" shows, in the final analysis, that their selfish desires had spread viciously and they had forgotten their purpose of serving the people and it was the inevitable end result of the slackening of ideological remolding. Since the Communist Party is one that works for the interests of the people, anyone who does not emphasize this point and instead devotes himself to his own plans, is absolutely not a genuine Communist Party

member. The party's purpose must absolutely not be allowed to change and party discipline must absolutely not be slackened, no matter how much change and opening up occurs during the period of reform and opening up to the outside world. Rather, it will be essential to emphatically cultivate a mentality of serving the people and not forgetting that one is a member of the Communist Party.

Although we Communists certainly also have to emphasize money and the principle of material benefits, we must attach primary importance to party spirit, communist style, and a spirit of selflessness. Otherwise, how could we be called Communist Party members if we haggled over every penny with the people to the point of forgetting justice when we saw a chance for profit, or did not hesitate to take all kinds of illegal steps to make ill-gotten gains?

IV. Party Organizations Must Take Practical Steps To Better Educate and Supervise Party Cadres

Although the seven department- and bureau-level cadres from Heilongjiang Province who were prosecuted should certainly take the major responsibility for their crimes, because they were caused by a slackening of their efforts at self-remolding, lessons in leadership and organization can also be learned from their experiences. One of these lessons is that practical steps must be taken to better educate and supervise party cadres.

Experience has proved that much better results can be achieved when firm emphasis is placed on better educating party members. What must now be particularly emphasized in their education is the principle that their teachers must be better educated first. As soon as ideological education or political work is mentioned in some areas and units, what is usually brought up is only how to teach ordinary party members and middle- or lower-level party cadres, while teaching party cadres from above the county level is seldom considered. This is one of the reasons why our ideological education and political work does not produce very tangible results. Although teaching by example is better than teaching by word of mouth, there are certainly some leading party cadres who have a weak sense of responsibility to the party, a shaky sense of what it means to be a party member, and a poor fighting spirit. Although they engage in unhealthy tendencies in a big way and have even, in fact, become corrupted themselves, they still are often caught in the situation of "speaking when on stage, but being spoken of when off stage"—when teaching others. How could a good job be done of teaching party members and the masses under these conditions?

Leading party cadres must be not only better educated ideologically, but also better supervised. This is because only through strict supervision can unhealthy tendencies and corruption be effectively kept from breeding and spreading. Although supervision may come in many forms, it must first be carried out well within the party. Some party organizations have now slackened their

supervision and stopped investigating or bothering about the ideology or work of party cadres and have even become indifferent to corruption among some party members. Some leading party cadres have taken advantage of their privileges to stop taking part in the regular activities and meetings, stop reporting their ideas and work to, and even place themselves above and refuse to be criticized or supervised by their party organizations, persisted in their old ways, and behaved unscrupulously to the point of committing many violations of the law and discipline. All of these are things that cannot be tolerated by party laws and regulations and must be firmly stopped.

The task of supervision within the party includes the formation of a democratic atmosphere of mutual supervision which truly enables organizations at all levels, all party members, and leading party cadres in particular, to place themselves under effective party supervision and work strictly according to the party's constitution and its other rules and regulations. Experience has proved that only in this way can equality of discipline and supervisory status for all be achieved within the party. All party members, from the rank and file to those who hold the highest positions of leadership, must be able to supervise others while being subject to various forms of supervision themselves. Refusing to supervise others is forsaking the responsibility of a Communist Party member, while refusing to subject oneself to supervision is a violation of party discipline. We must certainly deepen our understanding and make up our minds to take practical steps to improve supervision within the party.

NORTHWEST REGION

Urumqi Passes Verdict on Corrupt Officials

90ON0154B Urumqi XINJIANG RIBAO in Chinese
13 Oct 89 p 1

[By reporter Lu Changfang (7627 7022 5364)]

[Text] Urumqi Municipality on the afternoon of 12 October convened a mass rally attended by as many as a thousand people on implementing the policies of the joint "circular."

The rally publicized the disciplinary action taken against six people who had violated the law and discipline. Five of them received lenient punishment because they had made proper confessions. For example, Qian Jianxin [6929 1696 2450], former assistant manager of the negotiated price grain and oil operating department of the labor service company, Urumqi municipal grain bureau, in collusion with others, practiced fraud, illegally appropriated public funds, and obtained more than 8,900 yuan in illicit money, an act of embezzlement. However, Qian was able to take advantage of the joint "circular" and, on his own initiative, surrender to supervisory organs, confess all the facts of his collusion with others in appropriating public funds, take it upon himself to return his ill-gotten gains, and show willingness to

render service. The municipal bureau of supervision has exempted Qian from administrative punishment and proposed to the judicial organs that they not pursue a decision concerning his criminal responsibility.

Deng Bulin [6772 2975 2651], former head of the Shuimogou District militia control department, seeking personal gain and practicing fraud, used the authority of his position to build private homes which he rented out and sold for a profit, illegally obtaining 4,733 yuan. He also falsified files and took care of procedures for a nephew, who came from outside of Xinjiang, to enter the military. After the nephew's transfer to civilian work, he then arranged for him to settle in Urumqi and found work for him here. When Deng learned that the municipal bureau of supervision was investigating his serious misuse of authority for private gain, he pleaded with people everywhere, asking them to intercede for him. At the same time, he approached witnesses, asking them to provide false testimony, thus putting up one obstacle after another to impede the investigation. Only after a thorough investigation had been made and the events recorded was he compelled to write a self-criticism. In accordance with the spirit of the joint "circular" and the policy of "leniency to those who confess and severity to those who refuse," the Standing Committee of the Urumqi municipal people's government decided to remove Deng Bulin from his position as head of the Shuimogou District militia control department and proposed that the municipal commission for inspecting discipline sentence him to party disciplinary action. All his illegal income from rent and sales of houses are to be confiscated and turned over to the financial administration.

Provisions of Anticorruption Circular

900N0154B Urumqi XINJIANG RIBAO in Chinese
13 Oct 89 p 1

[Text] There have been 160 people surrender to procuratorial organs following the issuance by the Supreme People's Court and Supreme People's Procuratorate of the "circular on the requirement for embezzlers, bribe-takers, and profiteers to surrender themselves within a specified time." To popularize and implement the "circular" properly, officials from the Xinjiang People's Procuratorate on 12 September gave explanations concerning its relevant provisions.

1. Why the "Circular" Is Necessary

Generally, our party and government organizations and their staffs are honest, wholeheartedly serve the people, and are strongly supported and trusted by the people. These are essential characteristics that must be upheld. However, we must clearly realize that, because class struggle to a certain extent still exists, economic crime is becoming more serious. Economic crime, at present, especially embezzlement and bribetaking by minority state employees and speculation by minority units, is quite rampant. A very few people in charge of money,

finances, or property use the authority of their positions to misappropriate public funds, which they squander for their own pleasure. When carrying out transactions involving money or their authority, they deliberately make things difficult, make excuses, put up one obstacle after another, openly solicit bribes, and force customers and individuals to present them with money and gifts. They use their control over scarce goods and materials to engage in profiteering and seek exorbitant profits. They have taken bribes of several hundred thousand yuan, misappropriated public funds in the amount of several million yuan, and profited in their profiteering by more than several tens of million yuan. These serious economic crimes are corrupting cadre ranks, damaging the party and government, destroying economic work, and obstructing reform and the opening to the outside world. If we do not promptly and severely attack them, they will create an extremely dangerous threat to the country's political stability and socialist modernization.

The resolute punishment of corruption was one of the major tasks set forth at the 3d Plenary Session of the 13th CPC Central Committee. The Supreme People's Court and the Supreme People's Procuratorate formulated and issued the "circular on the requirement for embezzlers, bribe-takers, and profiteers to surrender themselves within a specified time" to encourage the masses to struggle against crime. Thus, by fully developing the attack against serious economic crime, by dividing and demoralizing criminals, and by giving bribe-takers, embezzlers, and profiteers an opportunity to repent and to make a fresh start, we can thereby concentrate our forces on exposing and severely punishing the small number of criminals who refuse to repent and continue their criminal activities.

2. The "Circular's" Main Points

While upholding the party and state principle of severely punishing according to the law those who have committed serious economic crimes, the "circular" implements the policy of combining punishment with leniency. The overall spirit and basic premise of the "circular" are to weed out and earnestly punish embezzlers, bribe-takers, and profiteers and, in particular, mete out severe punishment to those who refuse to repent their crimes. This embodies our consistent principle of severely punishing those who commit serious economic crimes. If criminals turn themselves in, confess, and render service, they will be treated leniently. The purpose of this is to appeal to the masses to bravely report offenders and expose them, to encourage embezzlers, bribe-takers, and profiteers to turn themselves in, confess, and render positive service, and to redeem those criminals who are willing to mend their ways, thereby doing a proper job of meting out punishment and fighting embezzlement and bribery.

According to the "circular," we must be more lenient than we have been in past in dealing with economic criminals who embezzle, take bribes, or speculate. China's criminal law stipulates that "a criminal who

surrenders voluntarily can be punished lightly. Those in this category who have committed minor crimes can be punished lightly or have their punishment remitted; those who have committed serious crimes, if they show evidence of rendering service, can also be punished lightly or have their punishment remitted." The "circular" also provides that, if, within the specified time, they turn themselves in, take it upon themselves to return their ill-gotten gains, report other offenders, and render service, they will all be treated leniently. Individual embezzlers, bribe-takers, or profiteers who have committed particularly serious crimes that deserve the death penalty, if they voluntarily surrender within the specified time, take it upon themselves to return their ill-gotten gains, and render service, according to the provisions of the "circular," will not be sentenced to death, irrespective of the amount involved. Embezzlers and bribe-takers of 50,000 yuan or more—who should receive heavy punishment—and embezzlers and bribe-takers of 50,000 yuan or less who voluntarily surrender within the specified time stipulated in the "circular," confess, take it upon themselves to return their ill-gotten gains or render service can receive a light or reduced punishment or can be exempted from being prosecuted and can be exempted from criminal punishment. In addition, individual embezzlers and bribe-takers who have been summonsed, are out on bail awaiting trial, are under house arrest, are in detention, or have been arrested, if they confess all their crimes and take it upon themselves to return their ill-gotten gains or render service, can, depending on the circumstances, receive a light or reduced punishment or can be exempted from being prosecuted and be exempted from criminal punishment. Of course, criminals who confess to only part of their crimes and conceal the facts of other crimes cannot utilize the lenient provisions of the "circular."

The "circular" also contains other important provisions; for example, provisions on protecting those who provide information about offenders, on rewards, and on the need for those who know about offenders but do not report them to know their legal responsibilities.

The "circular" clearly stipulates that the specified time for criminals to surrender and confess is the 2-and-1/2-month period from 15 August to 31 October. This provides them with ample time for consideration. If they let slip this opportunity, they cannot receive the special preferential treatment that would be accorded during the above time period.

3. What Surrender, Confession, and Rendering Service Mean

Surrender refers to the criminal voluntarily giving himself up to the police after having committed the crime, factually explaining the crime to judicial organs or to relevant units, and accepting the results of the investigation and judgment. Giving oneself up ordinarily means that the criminal voluntarily goes in person to public security, procuratorate, or judicial organs. The following should be regarded as the criminal voluntarily giving

himself up: if he turns himself in to his unit, a basic-level urban or rural organization, or an appropriate official; if, because of illness, injury, or to lessen the damage of the crime, he sends someone else to first report what has been done or writes a letter, calls on the telephone, or sends a telegram to report what has been done; if he turns himself in before the judicial organs have discovered the crime, but after relevant organs have made inquiries because of suspicious circumstances; if, after committing the crime he flees and is subject to an arrest order and to pursuit, he turns himself in; and if, following arrest by judicial organs, investigation shows that he was genuinely preparing to turn himself in or was in the process of turning himself in.

In punishing criminals, China's criminal law has always upheld the principle that those who surrender voluntarily will be treated leniently. The joint "circular" makes this even more explicit by stipulating that all those who voluntarily give themselves up within the time specified and who take it upon themselves to return their ill-gotten gains or show atonement, irrespective of how large the amount involved, can be treated leniently.

Confession refers to the criminal relating factually the circumstances of his crime after the relevant organizations or judicial organs, because they suspect or have discovered criminal activity, have questioned the criminal, summoned him for interrogation, or used coercive measures. If the criminal confesses all his crimes and takes it upon himself to return his ill-gotten gains, reference can be made to Article 2, Section 1 of the joint "circular," which stipulates that those who voluntarily surrender are to receive lenient treatment according to the circumstances involved.

Rendering service refers to criminals exposing major crimes of other criminals, providing confirmation to police of other major crimes, providing important clues or evidence that leads to the solving of other major cases, and helping judicial organs arrest other criminals. According to the spirit of the criminal law and the joint "circular," criminals who render service after giving themselves up can legally receive light punishment, have their punishments reduced, or have their punishment remitted.

4. What Embezzlement, Bribe-Taking, and Profiteering Are

According to China's criminal code and the provisions of the "supplementary regulations on punishing embezzlement and bribe-taking" of the Standing Committee of the National People's Congress, embezzlement refers to state employees, collective economic organizations employees and those who handle transactions for these organizations, and personnel who manage public property taking advantage of their positions to seize public property by misappropriation, theft, fraud, or other illegal means. Those who commit embezzlement in collusion with state employees, collective economic organization employees and those who handle transactions for

these organizations, and personnel who manage public property will be punished as accomplices. State employees with foreign contacts who receive gifts but who do not, in compliance with state regulations, turn over to the state what should be turned over to state will be punished for embezzlement when the amounts involved are relatively large.

Bribe-taking refers to state employees, collective economic organization employees, or others engaged in official business who take advantage of their position to demand another person's property or their illegal acceptance from another person of property because that person seeks to obtain some benefit.

State employees, collective economic organization employees, or others engaged in official business who, in the course of business transactions, accept in violation of state regulations various nominal commissions and service charges, which they as individuals retain, must also be punished as having taken bribes.

Enterprises and institutions under ownership by the whole people, offices, and groups that demand or accept other people's property so those people might obtain some benefit, depending on the seriousness of the circumstances, are also involved in bribe-taking.

Profiteering refers to violating state rules and regulations on financial administration, foreign exchange, gold and silver, and industrial and commercial management for the purpose of obtaining illegal profits, thereby illegally engaging in industrial and commercial activities seriously disruptive to social and economic order.

When enterprises, institutions, offices, and groups violate state rules, regulations, or laws, or State Council provisions or policies, by engaging in acts of profiteering to obtain illegal benefits for their own units, when the amounts involved are especially large, and when the methods used are vile or when the social and economic order is seriously damaged or the interests of the state, the collective, or the people seriously harmed, then those directly in charge and others directly responsible, in addition to receiving administrative punishment, will be investigated for profiteering and their responsibility and punishment determined according to the applicable

laws. All property obtained through profiteering by units should be recovered and returned.

China's criminal law and the laws concerning punishment of embezzlement, bribe-taking, and profiteering are rather severe. However, if embezzlers, bribe-takers, and profiteers who intend to repent and make a new start voluntarily surrender before 31 October 1989 to judicial organs or other relevant departments or their own units, take it upon themselves to return their ill-gotten gains or render service by reporting other offenders, or after the use by judicial organs of coercive measures, confess all their crimes, take it upon themselves to return their ill-gotten gains, or render service by reporting other offenders, they then can obtain much more lenient punishment than before.

The "circular" is a powerful legal weapon for meting out punishment for corruption and for upholding honesty. All party members, Communist Youth League members, state cadres, and citizens throughout the country must take positive action to widely publicize the "circular," bravely struggle against economic criminals such as embezzlers, bribe-takers, and profiteers, courageously report and expose offenders, and furnish clues pertaining to cases of economic crimes, thereby supporting and cooperating with the judicial organs in their resolute struggle against various criminal activities that seriously damage the economy.

Embezzlers, bribe-takers, and profiteers must clearly recognize the situation and eliminate their misgivings. They must not wait and bide their time. They must value this limited opportunity and realize there is not much time left under the "circular's" limited period to receive lenient treatment by surrendering voluntarily. They must sincerely and resolutely make up their minds and, as quickly as they can, take the bright road of voluntary surrender, confession, and lenient treatment. Relatives and friends of criminals must do a good job of admonishing them to encourage them to surrender voluntarily and confess in order to win lenient treatment. Criminals who continue to put up a desperate struggle, commit crimes, live under false pretenses, and evade punishment should come to their senses at once and change their point of view. It still is not too late. If they miss this opportunity or continue to insist on being an enemy of the people, they will inevitably be exposed and severely punished under the laws of the state.

Foreign Banks Expand Business in Taiwan

90OH0117 Taipei TIEN HSIA [COMMON WEALTH]
No 100, 1 Sep 89 pp238-240

[Article by Hsieh Shu-yuan (6200 3219 1254): "Foreign Banks Aim at Taiwan—As Money Market Opens up, Foreign Banks' Moves Become Increasingly Fancy; What Kind of Effect Will the Brand New Attacks of Foreign Banks Have on Domestic Banks and Consumers?"]

[Text] Judging from the booming business of foreign banks, we can see that Taiwan is indeed not the same as it was before.

Due to the change of the macrofinancial environment as a whole, both Britain and the United States are heading toward the road of deregulation. Taiwan's financial environment is also undergoing a drastic change: A large number of foreign banks have been established in Taiwan. During the Chinese-US trade talks, the United States demanded that the financial service industry be decontrolled and all foreign investors be treated the same as Chinese investors, thus putting pressure on opening up the market. As a result, the market has changed from lacking foreign exchange to having abundant funds; most of the financial industry has switched to the business of investing in the banking industry which has a higher value-added.

Profit-Oriented

Always profit-oriented, foreign banks have already weighed the macrofinancial environment of the world and the Taiwan market, drawn up a long-term plan in accordance with their own ability and speciality, and set out to look for their own profit base.

Kuo Yen [6753 3508], general manager of the Yunghsin Stock Exchange, gave the following explanation regarding the trend of foreign banks looking for their own profit base: "Before we do something, we always ask ourselves these questions—How much can we benefit our customers by starting this service? Is it impossible for other banks to provide the same benefit? If the answer is yes, then it will be our profit base."

Under this trend, foreign banks have each displayed their special abilities. Some concentrate their firepower to attack consumer loans and credit card market in Taiwan. Some create new financial products. Some design special project finance. Some use their own international financial connections to continue focusing on expanding services related to trade finance. Their vigorous action has made a great impact on domestic banks.

Seeing that Taiwan's consumption ability has increased substantially, many foreign banks have unanimously concentrated their energies on consumer financial services. Among them, Citibank has taken the most vigorous action. Ma Chien-ming [7456 1696 2494], vice president of Citibank, predicted that in five years

Taiwan will become one of the world's 10 major consumption nations, so he attaches great importance to services concerning car and home loans.

With regard to business tactics, Citibank emphasizes scoring success through service. Take home loans for instance, applicants are notified on the same day as to whether or not their loans are approved so that customers do not have to go through the anxiety of waiting. Ma Chien-ming pointed out that similar loan applications usually take seven days at domestic banks.

At present, Citibank has already have 40,000 customers of car and home loans.

Citibank has also vigorously promoted credit card business. Ma Chien-ming compared Taiwan to what it was 10 years ago in Japan. "Taiwan now has 400,000 credit cards. Japan had 1.5 million credit cards 10 years ago. This shows that credit card still has great room for development," said Ma Chien-ming with great confidence in this business. He also predicted that "Taiwan will reduce cash transactions in the future."

Chou Mei-lien [0719 5019 5571], vice president of the credit card center of Citibank, pointed out that Citibank is vigorously building the image of "card center and card issuer" while entering the Asian market. She said: "To penetrate Taiwanese households, it is not necessary to use branches. Using cards is a very good method."

Even the Taipei Branch of the Development Bank of Singapore, whose business volume is only 190 million Taiwan dollars, has its eyes set on the consumer finance market and has begun to offer car loans. Its general manager Cheng Tien-fu [6774 3240 4395] has personally visited manufacturers to promote business. This bank emphasizes scoring success through affinity.

Being Creative and Avoiding Risk

However, the Taipei Branch of the Dai-Ichi Kangyo Bank of Japan holds a different view. The chief of the investigation department thinks that since Taiwan does not have a national credit reference center like Japan does, that the cost of providing consumer loan service is high, and that it requires a large amount of manpower and expensive computer equipment to handle transactions, his bank has no plan to enter the consumer market for the time being. It will continue its regular business to serve thousands of Japanese enterprises in Taiwan.

With regard to the consumer finance market, humorous Chen Chi-chu [7115 1323 4591], manager of the international financial branch and the business department of the General Administration of the International Commercial Bank of China, made an analogy. He said: "The consumer finance market is a growing pie. Human desire can be created. Who would know to buy a car 10 years ago? Consumers have this need now, so you have to materialize it into service."

Creating new products to satisfy customers' needs is a profit base for other foreign banks seeking development. In recent years, Bankers Trust Company of America has been famous in the world for "being creative." Its Taipei branch has been no exception. General manager Wang Wen-han [3769 2429 3352] hopes to continue to come up with products that are considered "creative" in Taiwan. For instance, it issued foreign transferrable company bonds for the Yung Feng Yu Group in Europe to allow this group to raise funds overseas. This practice is unprecedented in the capital market of China. It allows foreigners to hold the bonds of Chinese enterprises which will be transferred into stocks after the legal restrictions of our country are lifted. This enables the capital flow of our financial market to avoid the limit of boundary.

Special Project Finance

The Bankers Trust Company is vigorously carrying out new plans. For instance, it helps customers avoid risk of fluctuating interest and exchange rates, make foreign exchange investment, and begin futures and gold transactions.

The Chase Manhattan Bank focuses on special projects finance. Chang Chia-ning [1728 1367 1337], vice president of Taipei Branch, said that it is suitable for his bank to adopt such a business strategy because the market is now ripe and his bank also has such specialty.

Special projects finance is suitable for capital expenditures for large-scale plant expansion and development and investment plans such as large-scale mining business. Since such a project easily involves \$100 million and covers a variety of risk factors, consultations and assessments are needed to find out the best financial plan and syndicated loan method is required to make a success of such project finance.

Chang Chia-ning emphasized: Since the key to project finance is risk assessment, especially technological risk assessment, it often needs experts who have rich experience in the industrial circle. The New York headquarters of the Chase Manhattan Bank has provided the best support in this regard. According to the needs of each case of project finance, it forms a group of seven to eight technological, industrial, legal, accounting, and financial experts and sends them to Taiwan to carry out comprehensive risk management and appraisal.

Yin Nai-ping [3009 0035 1627], director of the Banking Department of the Political University, also pointed out: Project finance is a comprehensive program suitable for providing financial support to Taiwanese enterprises in making large-scale or international investment. It is an imperative road to the development of Taiwan.

Expanding Profit Base

Some banks use their original businesses as profit bases, but they have further expanded them. For instance, the

Hong Kong and Shanghai Banking Corporation established a branch in Kao Hsiung in May 1989. Lung Shih-teng [7893 1102 4098], manager of the Taipei branch, stated: The Hong Kong and Shanghai Banking Corporation has a long history of engagement in import and export business and related finance business. It was founded over a century ago and has over 1,300 branch networks worldwide with its international networks spreading all over the globe. It has become an authority on the letter of credit and is a famous exchange bank in Asia. Its profit base is deep and stable.

The prospects show that the role and activity space of foreign banks will further expand in Taiwan's financial market.

In the past, due to restrictions on business and the establishment of branches, the influence of foreign banks has been limited to a very small scale in Taiwan's financial market. For instance, as of the end of 1988, 33 foreign banks captured only 4.2 percent of loan market and 1 percent of deposit market.

After the banking law revision bill was passed, foreign banks were allowed to engage in savings deposit and trust businesses, thus reversing the previous unfavorable situation of business restrictions. In addition, the Ministry of Finance has also considered and agreed to ease restrictions on the number of branches foreign banks are allowed to establish in Taiwan.

Comprehensive Financial Service

Many foreign banks have rolled up their sleeves, itching to expand their territory. For instance, Citibank is planning to establish branches everywhere. Ma Chien-ming, vice president of Citibank, revealed that Citibank's ideal is to establish eight branches in Taipei and 25 branches throughout Taiwan Province.

By then, domestic banks will have suffered a great impact. A Chinese banker expressed that Citibank is bound to become a strong competitor of domestic banks. He pointed out: With the advantage of computer software, Citibank uses credit card to infiltrate the market and uses comprehensive bank account (which combines different accounts a customer opened with Citibank into a unified comprehensive monthly statement to list in detail all transactions in this customer's accounts with the bank) to provide small loans, credit card service, and car and home loans to customers. Moreover, it can even provide financial consultation and management and other comprehensive consumer financial services such as selling mutual fund or insurance (after Citibank acquires the insurance license).

Considering Both Domestic and Foreign Markets

Facing such a challenge, domestic banks whose hands are tied, especially public banks, not only should ask the government to strengthen liberalization to consolidate local market but also need to expand overseas.

Chen Ssu-ming [7115 1835 2494], director of the Banking Department of the Ministry of Finance, revealed that the government has made extensive policy changes and allowed domestic banks to establish branches of unlimited number in foreign countries. At present, banks such as the Bank of China and the Changhua and the Communications Banks are all planning to establish new branches in the United States.

But Chen Ssu-ming pointed out: The biggest problem of domestic banks trying to establish overseas branches is that their scale is too small. For instance, the California branch of the Communications Bank has only \$10 million of capital and cannot play much of a role. He suggested that if several banks can establish a united bank overseas and raise a large amount of capital (\$400 million for instance), they will be able to compete with other foreign banks. Besides, the Central Bank has also decided to transfer part of foreign exchange reserves to the overseas branches of domestic banks. All these measures will help domestic banks gain a foothold overseas.

In marketing theory, the business strategy of manufacturers which are new to the market or of a smaller scale should be looking for profit base. Taking advantage of the tendency of financial deregulation in Taiwan in recent years, foreign banks have successfully developed their beachhead in Taiwan by utilizing their creativity, international networks, information, personnel, and other advantages.

What kind of strategy shall leading manufacturers in the banking industry (domestic banks) adopt?

Effect of Tiananmen Square Incident Seen Fading

900N0080A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 131, 11 Sep 89 pp 53-55

[Article by Ssu-Ma Wen-Wu (0674 7456 2429 2976): "The Square Has Vanished! Since 4 June, Mutual Aid and Cooperation Between Our Two Shores Has Seemed To Grow Closer. Taiwan, Which Was Initially the Most Vehement in Its Condemnation of the CPC, Has Since Restored Normal Relations at a Rate Unmatched by the Rest of the World. It Is as Though Tiananmen Square Has Become a Fleeting Past Event That Has Already Receded From Many People's Memories"]

[Text] A journalist friend from Hong Kong wanted to come to Taiwan to observe our "hundredth day memorial ceremony," but he asked around and nobody knew what he was talking about. "What 'hundredth day memorial ceremony'? When is it?" Then he discovered that people in Taiwan had completely erased the memory of the bloody massacre at Tiananmen Square. In stark contrast to Hong Kong, not only did the press not raise the issue, even private individuals were very little concerned about the members of the Chinese prodemocracy movement. On Taiwan everything changes rapidly and one news event quickly displaces another. The "news" of the Tiananmen massacre was

soon shoved to the back of people's minds, and now it seems as though various basic relationships between Taiwan and the mainland are totally unaffected by the Tiananmen incident. If anything, in some respects Taiwan's policy toward the mainland is more positive than it was previously.

The Taiwan Independence Ideology Thrives

Taiwan calls itself a bastion of anticommunism and, in the past, Kuomintang [KMT] vilification of and hostility toward the Chinese Communist regime has far exceeded that of any other nation. For a time, the call to "overthrow the tyranny of communism," which had been silent for some time, was briefly renewed and we spared no effort to censure and excoriate the CPC. Yet, it is Taiwan, the nation that assailed the CPC in the strongest and loudest terms, that has recovered fastest. Taiwanese tourists, businessmen, students, politicians, and athletes are leaving for the mainland in droves. Relations between our two shores have been restored to normal faster than relations between China and any other nation.

But, from another perspective, since 4 June the voice for Taiwanese independence grew stronger. Around the time of the World Conference on Taiwan the "Taiwanese independence" slogan rang out clearly at many Democratic Progressive Party (DPP) rallies, and public opinion polls showed that the proportion of support for Taiwanese independence also increased. Taiwanese independence is one of the major topics of discussion in the 1989 year-end election.

One professor in the pro-independence faction has said, "In reality there is no longer any conflict between reunification and independence on Taiwan; what remains is simply the question of how to go about gaining 'independence.'" Immediately after 4 June the voice of the reunification faction hushed to a whisper and the independence faction began to thrive. Although the voice for reunification was silenced, the "interconnection" faction took its place. As far as actions to communicate and establish connections with the mainland are concerned, Taiwan seems somewhat more enthusiastic than any other country.

Since 4 June substantive relationships between our two shores have grown stronger. Specifically, in the area of information access, we can now dial direct, there is frequent traffic in reporters from all types of media, press agencies receive direct wire reports from XINHUA NEWS AGENCY, reporters can conduct daily telephone interviews with mainland officials, and all restrictions on correspondence and communications between our two shores have been lifted. Mainland research offices at the various newspapers have expanded and the two main newspapers have even identified the market on the mainland as the target of their competition.

Economic Trade and Sports Remain Unaffected

In economic and trade relations, investment ceased temporarily as investors took a wait-and-see attitude, but trade was scarcely affected. In this area we have to look at international factors, particularly the resumption of Japanese and U.S. loans to Mainland China. The Taiwanese businessman's talent for soliciting help from potential backers is unrivalled, and this has remained unaffected by the events of 4 June.

In education, some academic conferences were postponed, but for the most part the primary reason was that the mainland side felt them to be inconvenient. Because political schooling to "quell counterrevolutionary insurrection" was still at its height, the sponsors were afraid that they might be labeled counterrevolutionaries and that, therefore, it was best to postpone the conferences. In very few cases was the academic world's refusal to visit the mainland actually caused by indignation. In fact, to satisfy their curiosity, many academics were actually eager to travel there in the name of cultural exchange, although they had no idea how to conduct such exchanges in the current political situation.

Sporting activities seem to have been completely unaffected. Taiwanese television stations broadcast a shot of our handball team in Beijing accepting gifts of flowers and best wishes from the Little Red Guards. Our basketball team is also about to visit Beijing. Not long after 4 June, a senior government official indicated that we would not consider restoring sports exchanges before 10 months had elapsed, yet this handball team's participation in the Beijing tournament has provoked no real criticism, nor has anyone but foreigners raised any opposition.

As far as civil legal relationships are concerned, bilateral development has been rapid. In the future, Taiwanese fishermen tried in mainland courts and mainland fishermen tried in Taiwanese courts may serve their sentences in the opposite country's prisons. It is becoming more and more common for mainland relatives to come to Taiwan to inherit property, and mainland relatives even under the old legal system could come to Taiwan to draw large retirement allowances. Taiwanese daughters are marrying in Amoy. There are many family and civil disputes of all kinds and we are looking eagerly at ways to formulate legal relationships between our two shores. Yet, the mainland's smuggling of stowaways is very serious and has raised concerns in all quarters on Taiwan, but there are not many effective remedies for the situation.

The Double Standard Is a Tremendous Irony

However, official mainland policies have received a great deal of criticism. Invitations for prominent mainlanders to visit are gradually being tendered, and if they are handled in a low-key fashion popular opposition is not too strong. But, on the other hand, many overseas dissidents, who are blacklisted and prohibited from reentering the Taiwan, cannot return to their families

and must go through special pipelines to run the blockade. If the famous, heroic leaders of the popular movement escape the mainland via such pipelines, but their Taiwanese compatriots who run blockades to return to Taiwan are forcibly escorted out of the country, we are faced with a hypocritical double standard. This is a great irony.

Another example is that of Ch'en Wan-chen's [7115 1238 4176] 7-year-old son, Chang Hung-chiu [1728 1347 0036], who had to be sent out of the country because he had no household residence, whereas Executive Yuan President Li Huan [2621 3562] announced that mainland relatives could come to Taiwan as "dependents of relatives." This is even more of a double standard in humanitarian policies. This kind of thing makes it seem as though mainlanders are close relations, whereas those on Taiwan itself are distant relations. This creates considerable inequalities between people.

The KMT's mainland policies focus on reducing the tensions between our two shores. Consequently, they strive to adopt methods that will not provoke the CPC. Except for the runaway sentiments that accompanied the Tiananmen massacre, when the slogan "Throw off the tyranny of communism" was at full cry, we have been very cautious in both word and deed. In turn, the CPC authorities have also made painstaking efforts to win over the people of Taiwan. They want to stabilize relations with Taiwan at least temporarily, and they want to avoid setbacks in this effort.

Many people who have visited Beijing have had an opportunity to observe high-ranking communist officials and the leading rank of individuals responsible for policies toward Taiwan. Although bilateral talks do not often run into sticking points, they are nevertheless sufficient for showing due respect for opposing sentiments. The fact of face-to-face discussions means that we can witness the importance the Chinese Communists place on their relationship with Taiwan.

Two Visiting Missions Have Been the Subject of Much Discussion

There are a great many visiting missions traveling back and forth from the mainland, but among them, two human rights organizations have been the subject of much discussion: the Taiwan Teachers' Society for Human Rights Promotion and the Chinese Human Rights Association. The itineraries for these two associations were all set before 4 June. While on the mainland, hoping to avoid being used by the CPC as a propaganda tool, they were very circumspect in what they said and did. But when they went to the mainland to discuss human rights after 4 June, the CPC profited from their presence. Right now, the CPC is stressing repeatedly that it does not want foreigners interfering in its internal affairs. The communists do not fear economic sanctions and, of course, they care nothing for moral sanctions.

However, in this instance, when all human rights organizations around the world were applying moral sanctions, Taiwan's human rights organizations hastily embarked on their journey, and neither before nor afterward did they say a word about moral sanctions. In fact, some people wanted to take advantage of the opportunity to discuss with the communists a plan to establish a people-to-people intermediary organization. They completely ignored the tragic events that had occurred all around Tiananmen Square 100 days before. In this instance Taiwan's utilitarianism and pragmatism surpassed even that of the Japanese.

The words and deeds of exiled leaders of the prodemocracy movement have been given widespread coverage in Taiwan, but people are afraid that it has not all been taken seriously; they are just looking at it from a human interest standpoint. For example, Wuer Kaixi [0710 1422 7030 1585] and Chai Ling [2693 3781] are being idolized by young people as though they were recording or film stars. But if you listen to what these young people say, you can't help being surprised at their superficiality. And the essays that scholars such as Yen Chia-ch'i [0917 1367 0366] and Su Chao-chih [5685 3564 2535] have written also lack much depth or introspective power. Newspapers that published their political opinions, in fact, have led many people to the deep-seated feeling that the sense of value on these two shores is so far apart, that the political opinions of even the most enlightened scholars cannot breach the gap. There are really too few people like Wang Tan [3769 0030], whose democratic outlook is relatively compatible with that of Taiwan. And then there are people like Liu Pin-yen [0491 6333 7159], whose hopes for the future of Mainland China lie merely in changing bound feet into normal feet. Even if this is achieved, it will have absolutely no appeal for the Taiwanese people. When Taiwanese newspapers publish these articles they pay tribute to the individuals concerned, but, by contrast, the articles themselves alienate Taiwanese readers because lifestyles under the two dissimilar world systems are so far apart.

Each Nation Is Correct in Its Own Style of Democratic Movement

Right now, those involved in the prodemocracy movement need financial aid, and various countries are enthusiastically making many empty promises. Very little money has actually been supplied. The 100 million yuan fund that various sectors in Taiwan have given to the KMT will continue to be the most substantial source of aid. The KMT is being offered a practical opportunity to develop a sense of mission about the mainland, but the conflict between the KMT and the CPC exists in yet another form.

A veteran of the fishery protection movement said that the prodemocracy movement on the mainland will begin with a boom, but the great mass fervor will gradually subside. Some people will move on to take advanced studies, some will find jobs, and some will seek green

cards. The countries that accept them will host symposiums and publish newspapers and, later, the infighting will take center stage and the ranks will begin to split, while the majority of the people will lose hope and separate themselves from the movement. They will have to wait for transformation on the mainland, after which they will be able to become active once again. This is the pattern of overseas opposition movements, and each country has its own correct style. The previous fishery protection and Taiwan independence movements will serve as practical examples. The route zigzags endlessly, but it always varies in concert with domestic changes. The overseas movement is merely one minor aspect. Taiwan, with its experience in various previous movements, has already changed in very practical ways. The mainland prodemocracy movement still has a long road to travel.

Although Taiwan independence faction scholars and opposition party members are concerned about the mainland prodemocracy movement, they are not enthusiastic about it because the Taiwan issue is already complicated enough. Whether it is the issue of separation between party and state, nationalization of the armed forces, independence of the judiciary, or the legally constituted authority of the congress, all are in urgent need of comprehensive reform. The forces opposing reform are formidable and, although martial law has been abolished, the sentiment behind martial law remains. Moreover, social and economic problems grow worse day by day, and if Taiwan cannot fix its own problems, how can it help the mainland? On the other hand, if Taiwan corrects its own problems, then naturally it can serve as a model for the mainland. This is a widespread sentiment.

The 4 June Incident Contributes to Social Maturity

In the wake of the incidents of 4 June, the political, economic, and social disparities between our two shores have widened, reaffirming people's belief that there is no way we can submit to the control of the communist regime. It has also helped people to identify the good and bad points of the Taiwan and mainland systems. However, the two cannot recombine the moment relations are opened between them. The sentimental attachment between Taiwan and the mainland has suddenly grown considerably closer, but at the same time there is widespread support for Taiwan independence. Society as a whole is much more open than it was before and even more extreme political opinions are beginning to seem less fearsome. Because we have a political opinion forum that freely regulates itself, and, because we have actively joined international society, we have become the voice of the people. Bilateral relations seem closer but are actually more distant; they are at the same time closer and more distant. The incidents of 4 June have helped Taiwanese society to mature. As a consequence, the government is obviously more at ease with the growth of "reunification" and "independence" factions, and, in fact, even if it wanted to control the process, it could not.

Hsu Hsin-Liang Suspects KMT in Yu Teng-Fa Death

90ON0081A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 132, 18 Sep pp 28-29

[Article by Liao Fu-shun: "Hsu Hsin-Liang's Barbs Are Directed at the Kuomintang"]

[Text] Hsu Hsin-liang, who experienced difficult times as a comrade-in-arms of Yu Teng-fa, expressed deep sorrow at the latter's death. Hsu Hsin-liang remains unclear on the circumstances of Yu's death, but says the murder was "intended" by the Kuomintang [KMT].

Hsu Hsin-Liang, who at present lives abroad in exile with no way to return home, expressed great sadness at the death of Yu Teng-fa. Yu and Hsu were both figures in the history of the opposition movement on Taiwan and experienced adversity together.

An Old Nonparty Comrade-in-Adversity

In early 1980, as a result of the Wu Dai-an communist agent case, Yu Teng-fa was arrested and imprisoned. At the time, Hsu Hsin-liang was serving as Ta'oyuan County magistrate, and despite his capacity as a public servant, he participated in the 22 January Kaohsiung Bridge demonstration, expressing his support for Yu Teng-fa. For this he was charged with the three capital crimes of "leaving his post without permission," "participating in an illegal gathering," and "signing antigovernment documents" and was impeached by the Control Yuan. Soon afterward, he was subjected to a public reprimand and suspended from his duties for 2 years. Several months later, Hsu Hsin-liang again departed for the United States, going into exile with no way to return and becoming the primary critic of the government from abroad.

Yu Teng-fa, an old man more than 80 years old, was deeply touched by the personal loyalty of Hsu Hsin-liang. On two occasions in the last 3 years, Hsu Hsin-liang braved the journey and returned to Taiwan, and Yu Teng-fa personally led the Yu family in meeting him in order to express their kindly regards.

Regarding the murder of Yu Teng-fa, Hsu Hsin-liang considers it to be a murder intended by the KMT, and the KMT must bear full responsibility. At the same time, Hsu considers Yu Teng-fa to be as great a personage as India's Gandhi. What follows is a summary of an interview with Hsu Hsin-liang that was done by this publication:

[HSIN HSIN WEN] What is your view on the sudden death of this senior member of the Taiwan opposition movement?

[Hsu Hsin-liang] After I learned of the murder of County Magistrate Yu I was deeply shocked and saddened. Yu offered his whole life to the Taiwan opposition movement, he could "not be cowed by force nor corrupted by riches," and it may be said that he stands as the highest

and most perfect embodiment of the opposition movement. During the 87 years of his life, his commitment to the democratic movement did not change, he was hard-working and frugal, hard on himself, but enthusiastic and steadfast toward the opposition movement. His type of spirit may be mentioned in the same breath as Gandhi, indeed he stands first in the history of the Taiwan opposition.

A Murder Intended by the KMT

[HSIN HSIN WEN] With the details of this case remaining unclear, how do think the public and government should view the death of Yu Teng-fa?

[Hsu Hsin-liang] Newspaper reports in Taiwan have already defined it as a murder, although some also say it could be an accident or a robbery. But I feel that these explanations are implausible because the situation is almost completely the same as the one I encountered 10 years ago.

In 1979, 2 days after the United States and Taiwan had broken off diplomatic relations, the KMT halted elections, and at the time there were many rumors flying around that said there were more than 500 police uniforms in my flat. But all these rumors, which were unfavorable to opposition movement figures, were the creation of the KMT. In addition, at the time, the five bloody characters "shoot down Hsu Hsin-liang" had been written on walls facing the Taoyuan county government building and police station and several hundred people had signed their names. At this point the chief of police, Chuang Hengdai, came looking for me and asked me if I wanted it wiped off. I gave him a good dressing down and said, "Don't wipe it off, let it remain as a testament to history!" Think for a moment, with such large characters written in front of the police station door, who would have thought that they didn't know, who would have believed it? After that, people spread a large number of rumors and it was not long after that the communist agent case against County Magistrate Yu occurred, and he too was arrested. This situation was not only a politically based frame-up and a planned political persecution, but was also not directed at Yu alone, but was a planned persecution directed at the entire opposition movement.

And today's situation is also the same, though at present there is as yet no direct evidence to show that this was planned or instigated by the KMT, I believe this result was KMT's "tendency to kill" and this murder is intended by the KMT. Because a few days ago a Taiwan newspaper published a report that the intelligence and control units predicted that riots would occur during the elections at the end of the year, and public security units also agreed to issue bulletproof vests to candidates, which is clearly meant to intimidate and frighten our compatriots, it is clear that if there are riots during the elections, this will be used to attack the opposition parties.

In addition, several months ago, the secretary general of the KMT, Sung Ch'u-yu, in a public interview, revealed the existence of the secret faction "Hongmen" [Flood-gate], and, as is known to all, deputy secretary general Kuan Chung-t'a has close ties to the underworld. All these signs point to the fact that the KMT is using the threat of violence to attack the opposition movement in exactly the same manner as ten years ago.

The Same as a Political Murder

The chairman of the Democratic Progressive Party [DPP], Huang Hsin-chieh, is right when he says that this is the same as the still unsolved "bloody case of the Lin residence," and, if we say this is not the work of the KMT, I am afraid no one will believe us. Recently, though the details of the case are not yet clear, the collusion of the KMT and the underworld makes it extremely likely that the underworld was used and, moreover, as the Kaohsiung area also has considerable complexity, this possibility is extremely high.

[HSIN HSIN WEN] Before the facts of this case have become clear, by virtue of your past experience, you consider this to be a case of political murder, even going so far as to say it is a murder "intended by the KMT," but do you or do you not believe that today's KMT has reformed somewhat in comparison to the KMT of 10 years ago?

[Hsu Hsin-liang] I feel that in the past the KMT still had confident leaders, but the present KMT has no confidence in comparison to before, particularly after the lifting of martial law and the flourishing of the opposition movement, and with respect to this challenge, the KMT could only have even less confidence. Under these conditions, the KMT is all the more likely to be involved in such action.

[HSIN HSIN WEN] Yu Teng-fa's political views included the concepts of a "unified China" and "the world is for all," which meant no harm to the KMT. On the contrary, on several occasions during meetings of the DPP, Yu Teng-fa frequently noted that for the domestic press the DPP had become news material for the society sections of newspapers, hence, how can you assert that the KMT would resort to violent treachery against such a man as this?

[Hsu Hsin-liang] This is not a case of the KMT having a special hatred of Yu Teng-fa and resorting to violent treachery, but as long as within the ranks of the KMT there is this "tendency," it can draw on the criminal underworld or encourage the criminal underworld to engage in this sort of thing, the purpose being to create terror. This resort to terror will frighten opposition movement figures and is done in order to maintain political power, much like the situation in Central and South America. There the ruling circles, in order to consolidate their political power and attack opposition figures, often abet so-called death squads in carrying out assassinations in order to frighten people.

Under these conditions, Yu Teng-fa is just a symbolic figure, and the KMT is using his death for the purpose of frightening people.

[HSIN HSIN WEN] What do you think the DPP's reaction to this affair should be?

[Hsu Hsin-liang] I think the DPP should publish a statement saying that candidates must pay attention to the possibility that the KMT will use serious and violent intervention in the yearend elections. Such an approach is very proper.

[HSIN HSIN WEN] What effect do think the Yu case will have on conformity within the DPP?

[Hsu Hsin-liang] I believe that within the party there is certainly considerable unity and unanimity in dealing with the KMT, of this there is no doubt.

[HSIN HSIN WEN] What are the views of overseas Taiwanese organizations on the murder of Yu Teng-fa?

[Hsu Hsin-liang] Because this event occurred just 2 days ago, there are many who do not understand the situation yet, but all those who know about the affair have expressed their shock and anger.

[HSIN HSIN WEN] Who or what was their anger directed against?

[Hsu Hsin-liang] The KMT, of course. Even though the true facts have not yet become clear, everybody is pointing at the KMT, and they all detest the way the KMT turns a blind eye to violence.

[HSIN HSIN WEN] Could you please touch briefly on your personal relations with Yu Teng-fa?

[Hsu Hsin-liang] I am not directly related to Yu Teng-fa. He was part of the older generation of the democratic movement and I held him in great respect. In addition, at the time of the provincial assembly, I became very familiar with his daughter Yu-Ch'en Yue-ying, and when his son-in-law Huang You-jen was Kaohsiung county magistrate, I was T'aoyuan county magistrate and we often had contact. During that period, I also frequently came to Kaohsiung to call on County Magistrate Yu, and when the Wu Dai-an communist agent case occurred, after County Magistrate Yu was arrested, we went out to demonstrate.

That same year County Magistrate Yu often came to Taipei to participate in meetings of opposition figures, he was always dressed simply, but toward the affairs of the opposition movement he harbored extreme enthusiasm and won people's respect.

[HSIN HSIN WEN] What is your evaluation of Yu Teng-fa?

[Hsu Hsin-liang] I have already stated that he was the type of person who, as Mencius stated, "could not be cowed by

force nor corrupted by riches," a true man of the democratic opposition movement, with a spirit of strict personal discipline who may be compared to India's Gandhi. Although his

level of achievement and success was not the same as that of the Indian sage, in terms of spirit he can definitely be compared with Gandhi.

Survey Finds Confidence in Future Remains Low*90ON0203B Hong Kong MING PAO in Chinese
25 Oct 89 p 4*

[Article: "Hong Kong Residents' Economic and Political Confidence Index Still at a Low Level; China-Hong Kong Relations Tense; Repeated Conflicts Occur"]

[Text] Results of the latest Hong Kong market research survey show clearly that at the end of October, although the economic and political confidence index of Hong Kong residents has risen from its lowest point in history, reached after the events of 4 June, current tensions in Sino-Hong Kong and Sino-Great Britain relations have kept the confidence of Hong Kong residents from returning to what it was last year.

The survey also found that less-educated Hong Kong residents and those over 40 years of age recovered their confidence in the economy faster than those in the professions or in administrative positions. Regarding Hong Kong's future, although the confidence of professionals, administrators, and business people is slightly higher than it was after the events of 4 June, it is still not what it was.

The survey was conducted from 5 to 11 October, a period in which large numbers of illegals from China were refused admittance, creating some tension in Sino-Hong Kong relations.

After the events of 4 June, the political confidence index of Hong Kong residents fell to its lowest point in history, but climbed four points in July. The Hong Kong Market Research Agency originally forecast that the political confidence index would continue to show an increase in October, but tensions in Sino-Hong Kong and Sino-British relations caused the index to remain at the low level of 86, identical to what it was in July.

Compared to June, the survey results showed clearly that Hong Kong residents' confidence in the future was up slightly, with 56 percent holding an optimistic view, compared with 45 percent in June. Moreover, those expressing pessimism dropped from 54 percent in June to 44 percent.

In October, professionals, administrators, and business people were also a bit more confident, with 44 percent expressing confidence in the future, a 9-percent increase from June. However, more than half of Hong Kong's residents still lack confidence in the future.

When asked what might improve their political confidence, a third expressed the opinion that the most important task was the further internationalization of Hong Kong, while 27 percent of those interviewed agreed with the statement that the governments of Hong Kong and Great Britain should assist in speeding up the pace of democratization in the colony. There were also those who believe it most important to carry out still

more large-scale construction or for the British Government to grant citizens of Hong Kong the right to live in Great Britain, with 20 percent holding each view.

Sixty Percent Say Housing Construction and Education Should Take Precedence

During the transition period, what should be the first priority of the Hong Kong Government? Some 35 percent told the interviewer it should be housing construction, while 30 percent said education, and 19 percent held that the highest priority should be to put more resources into social welfare.

In general, low-income people put more emphasis on the topics of housing construction and social welfare, while high-income people put more stress on financial services and airport development.

Regarding current Hong Kong economic conditions, the survey found that residents are more optimistic than they were in June, with the number who believe that Hong Kong's economy is good climbing to 23 percent, a 4-percent increase. Those who believe that economic conditions are poor dropped from 22 to 13 percent. Two-thirds believe that economic conditions are average.

Professionals and Business People Are Pessimistic About Economic Prospects

It is worth noting that there has been no improvement in the views of professionals, administrators, and business people concerning Hong Kong's economic conditions. Only 19 percent of these people believe that economic conditions are good, the same figure as in June. Concerning its economic conditions in the months to come, 11 percent of the colony's residents think that there will be improvement, an increase of 4 percentage points compared to June. Moreover, the number of those who hold a pessimistic view dropped from 58 percent to 46 percent.

Over the last 3 months, consumer interest has improved slightly concerning what they think they will be able to afford, such as property, houses, and so forth, with 15 percent of consumers expressing the opinion that they will be able to afford these important items in the months to come. This is a rise of 3 percentage points from June. Generally speaking, the interest of middle- and upper-income people was climbing more rapidly.

The Hong Kong Market Research Agency's consumer interest index indicates that although it had risen 6 points by October from its all-time low in June, to 93 points, it is still 7 points lower than it was at the same time in 1988.

When asked how they felt about financial conditions, 23 percent of those interviewed believe that their personal financial condition will improve in the near term, while 20 percent think it will get worse, and over 50 percent foresee no change.

Trade Union Federation Proposes Legislative Model

90ON0203A Hong Kong MING PAO in Chinese
29 Oct 89 p 6

[Article: "Trade Unions' Major Changes in Political Model; Plan Is for One Legislature in Two Bodies, But Higher Direct-Election Component; Zheng Yaotang Claims No Pressure From China"]

[Text] At the conclusion of the basic draft consultation four days ago, according to the official statement of the 170,000-member leftist Federation of Trade Unions on the topic of governmental organization, there has been a major revision in the model proposed by the unions at the end of last year, to creation of a similar "one legislature, two bodies" model. However, there is a greater direct-election component in the governmental model. The chairman of the union board of directors, Zheng Yaotang [6774 5069 2768], asserted that the union was not pressured by China to change its stance.

Zheng Yaotang indicated that consultation on the new plan gathered the strong points of plans proposed by others and also included many opinions submitted by the federation's member unions. He believes it can be considered good for all concerned. Moreover, it will make the legislature more effective by getting the most out of its inspection and assessment of administrative organizations, and improving coordination among them. There is also hope for accelerating the pace of democratization on a stable foundation. Actually, prior to the federation's official position statement, a succession of its member unions had very recently made a public statement of support for "one legislature, two bodies."

Moreover, Tan Yaozong [6223 5069 1350], a member of both the Legislative Office and the draft committee, as well as vice chairman of the Trade Union Federation, indicated yesterday evening that he was simultaneously emphasizing the plan for a two-body system and giving equal importance to the last plan adopted by the federation. But he could not say he was supporting one plan over another because he also was a member of the draft committee. He expressed the hope that they would listen to as many opinions as possible before finalizing the plan.

Some political analysts believe that this change in the federation's attitude is obviously due to pressure from Beijing, but people in sympathy with the federation's predicament realize that, in the present situation, regardless of whether there is opposition to the idea, China will undoubtedly want the "one legislature, two bodies" model to become the Hong Kong governmental system of the future. So the federation, caught in the middle, will make every effort to improve and strengthen the direct-election component.

According to what was passed the other evening by the federation's board of directors, the federation's 81 subordinate unions' newly revised stand on the Basic Law is that

after 1997 the legislature should be divided into a "functional body" and a "local body." Concerning legislative seats, 80 percent of the local body's seats will be directly elected in the first two terms, with all seats directly elected starting with the third term. Another provision is that, starting in the third term, the senior administrative officer of the legislature will also be popularly elected. The legislature's two bodies will have 30 seats each, with equal rights and responsibilities. Proposals will be discussed separately by each of the two bodies and will be subject to approval through majority votes.

The seats in the "functional body" will come from the various sectors in society and will not be elected by either direct or representative election. Representatives from the industrial, commercial and financial sectors, the professions, labor, and other sectors will constitute a third of the seats.

In the legislature's first two terms, "district representatives will constitute 80 percent, and other local bodies," (formed from municipal government bodies, regional government bodies and members of regional legislative bodies) will constitute 20 percent, selected in separate direct and local elections. Starting in the third session (2003), the local body will be selected entirely through direct elections.

However, the plan also suggests that during the third legislative session, there be a self-examination of the legislature's composition and joint operations, and that the results of self-examination be submitted to a vote of the legislature's two bodies sitting in joint session, with a two-thirds vote required for passage. The senior administrative officer must also approve and report to the Standing Committee of the National People's Congress for ratification.

If a situation should arise whereby one body of the legislature approves a proposal and the other body votes it down, the federation's plan proposes as a first step that the relevant standing work committees of the legislature's two bodies hold consultations to seek a plan to resolve the conflict. If there is still the same result, the second step would be to form a conference committee from members of the two bodies, with all members having equal status, to formulate a compromise proposal. Unless more than two-thirds of the two bodies vote to uphold the original veto, then the conference committee's plan will be adopted; otherwise, the plan will be set aside.

As for selecting the senior administrative officer, the federation's plan is for about 300 people from the first two terms to form an "election committee" to make the selection by indirect election. Anyone nominated by more than 10 members could become a candidate; afterward, whoever receives the vote of more than 50 percent of the committee would be elected.

The composition of the election committee will be industrial, commercial and financial sectors (20 percent); the professions (20 percent); labor (15 percent);

grassroots level (10 percent); the whole legislative membership (20 percent); representatives from local parliaments, municipal and district governmental bodies (10 percent); and Hong Kong deputies to the National People's Congress (5 percent).

After the third session of the legislature, the senior administrative officer's position will change from being elected by the electoral committee to nomination only by the committee. Anyone supported by 10 members of the committee will be a nominee, and whoever captures the support of 50 percent or more of the committee will be candidates. After this, election will be by popular vote of all Hong Kong citizens, on a one-man, one-vote basis. The successful candidate will be reported to the central government for appointment, and will serve a 5-year term.

In the new plan announced by the federation yesterday, the method of producing the senior administrative official is actually identical to the plan originally proposed by the federation in September of last year. The federation not only presented a revision at the end of last year, it also proposed that the second-term election to choose the senior administrative official in the third term be a popular vote, regardless of whether one man, one vote.

Regarding the selection of the legislature, the federation's original proposal of last September was that the members of the original legislative body choose the election committee, with the second session's proportion to be 40 percent directly elected district representatives; 45 percent from functional organizations; and 15 percent chosen by the election committee.