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# ***JPRS Report***

# **China**

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### Political Reform Measures Proposed

40050033 Beijing XIN GUANCHA [NEW OBSERVER]  
in Chinese No 17, 10 Sep 88 pp 14-15

[Article by Li Anshan 2621 1344 1472, dated Toronto University, June 1988: "Some Opinions on the Political Reform in China"]

[Text] The strict and oppressive reality of a centrally planned economy over the last few decades had China's politics and economy tightly bonded together. Without an overall reform and reform of the entire orientation, the outlook for China's reform, it seems, cannot be optimistic. In my humble opinion, we must adroitly guide action according to circumstances, and must draw experiences and motivation from the political and popular sentiments expressed during the reform of commodity prices, and intensify the reform of the economic [as published] system. In the following, I shall express my personal opinions on several issues of considerable importance in connection with the reform of the political structure.

#### Reform of the Press

In China, newspapers are usually called "mouthpieces of the party." This actually imposes strict limits on the ability of the news media which are the modern means of news dissemination, to propagate the ruling party's principles and policies, and these narrow limitations are the cause of much dissatisfaction among the masses. If there would be a gradual opening up, the press could assume the following roles, in addition to propagating the policies of the party (speaking merely of political aspects): First, the role of democratic supervision. In China, all power belongs to the people. If the people are to exercise effective supervision over public functionaries, the press would have to be the medium for the disseminating of news, and would have to bear responsibility, as it also would have to have the right to freely exercise supervision within the limits allowed by the constitution in respect of all the various aspects of social life, such as leadership decisions, actual work projects, morality, law, etc. Second, the role of a link between the authorities and the common people. In the West, administrative organs of the government at all levels report on their work to the taxpayers by such means as TV talks, regional lectures, letters, and direct dialogue, and the citizens too have a variety of channels through which to present opinions or report on conditions to their government organs. Under the present economic conditions of China, the most convenient and most economic method of establishing contacts between the people and public functionaries, and to enhance the exchange of information between the two sides, could only be the news media, especially newspapers and periodicals, as independent means of news dissemination. They would be able to report fairly quickly and factually on objective conditions and to play a role as a link between the authorities and the common people. Third, the role of raising the awareness of the people of being participants in government. The Chinese

people are little aware of being participants in government, a fact that is related to backward economic conditions and, what is more important, a condition that is due to the lack of opportunity to voice their opinions. An independent press would enable opinions of the masses to be very broadly reflected, thus would open up a wide path for expression of opinions, and would achieve the objective of nurturing and raising the awareness of the masses of being participants in government. Fourth, the role of opening channels of communication. No society can satisfy every single one of its members; there will therefore always be some with differing or opposing views. Any society that aims at stability will not suppress or restrict the expression of dissent. On the contrary, it must provide opportunity for dissenting opinions to be expressed. There is an old saying: "Guarding against voices of resentment among the people is more important than guarding against flood waters." Dissent is an element of instability, and by its very nature it is negative (not a value judgement, but said with regard to a relatively stable society). If it has no channel to express itself, it will smoulder in secrecy, and will become an unpredictable political element. If it had channels to express itself, dissent would become predictable, and those in power could at all times maintain control of it, adroitly guide action according to circumstances, and possibly even be able to turn it into a positive factor. The news media could open channels for every variety of dissent and thus act as a pressure valve. They could reduce or prevent extremist action that might otherwise be engendered by an inability for dissent to express itself.

The above will make us realize the importance of an independent press. If no change is made in the present dependency of newspapers, if there is no freedom of the press, there cannot be any democracy to speak of.

#### Relative Independence for Social and Political Organizations

The specific task of the political structural reform is to develop a state of socialist democracy in politics, of which the core is to have the people be masters of their own affairs. On the Chinese political stage there are, in addition to the CPC and various democratic parties, also some political organizations, mainly the trade unions, the Communist Youth League, and the All-China Women's Federation. Two problems are involved here that deserve our attention. First, already existing political organizations should be relatively independent. Since the founding of the PRC, all these political organizations have fulfilled the role of tools guided by the communist party. That was of course beneficial for the centralized unified leadership of the party, but that meant also totally forgetting their role as representing the interests of a certain social group and of reflecting the opinions of various social groups. A comparative independence of the political organizations could promote political democratization through political activity of the various social groups, as it could also have them serve as a bridge and link that would truly establish a connection between

the masses and party and government. It could also serve to have the various political organizations gradually develop into a kind of balancing force, and have them exercise a certain supervisory role over party and government work, thereby restraining any tendency toward an inflation of power or misuse of power. It seems that China's public opinion and its theorists have so far never given attention to this point.

Second, the peasants need an appropriate political organization. The ratio of the rural population in China has now essentially stabilized at around 80 percent. In the last few years, developments in the rural economy have not only provided experiences and enlightening information for the urban economic reform, but also provided the most important material foundation for the development of the economy of the whole nation and for social stability. However, workers have trade unions, women have a Women's Federation, and youths have the Communist Youth League, but when it comes to the peasants, who make up 80 percent of the population, who represents them? The village committees, that have recently been formed, can fulfill a certain social role, such as mediating disputes, act in matters of welfare, etc., but they are only local organizations at the basic level. Today, when the rural economy is developing rapidly, there is no way for the rural population to have their voices heard because there is no political organization that represents the interests of the peasants. We have seen that the contradictions and hostile confrontations between some local governments and peasants has had some serious negative and even destructive effects on economic development. The demonstration of the garlic growers, protesting bureaucratic workstyle, demonstration of the vegetable growers, protesting nonfulfillment on contracts by relevant government agencies, and the bloody incidents when peasants fought for chemical fertilizer and against payment of road tax, this all reflects the need for the peasants to have effective channels through which their interests can be ensured protection, and this cannot be achieved only by reliance on government policies. This is only one aspect of the problem. It is even more important that the establishment of a political organization representing the interests of the peasants will gradually nurture a sense of responsibility among China's peasants and an awareness of being masters of their own affairs, as it will also gradually raise their awareness of being participants in government. It is furthermore a demand for a better active demonstration of the superiority of socialism. To disregard the legitimate interests of 800 million peasants, would, I am afraid, make it a sham to speak here of the people being masters in their own house.

#### **Neglect of Education; the Result of Political Shortsightedness**

"As long as the cat catches mice, it does not matter whether it is a white or a black cat." It is correct to say so, but it does not give the necessary attention to the process of nurturing and training good cats. The delegates to the

NPC and the CPPCC were vociferous in demands for strengthening education, and although this has had a vivid response among the general public, there are still some people who have an extremely short and shallow conception of education: economic reform can bring direct benefits, political reform is brought about under the pressure of circumstances, but educational reform can slowly take its time. They little realize that in the modern society, in which science and technology are transformed into productive forces, a backward country that intends to shorten its disparity with the developed countries has no better way than to develop education.

We have heard the slogan "respect knowledge, respect talent," and also the grumbling expressed in the saying "intellectuals sit with naked behinds in a bridal chairs" [being carried with great pomp in a beautiful sedan chair without being provided with the wherewithals to cover their nakedness]. We have heard news of modern mansions and guild halls being built, but also reports of broken-down school houses because they could not be maintained and frequently collapsed. We have heard promises of improving the treatment of intellectuals, but have also heard the common saying "Rather chicken eggs than 'atomic eggs,' rather a shaving blade than the surgeon's blade." This shortsighted policy and contradictory reality has a doubly negative impact on society. In the educational domain, the disintegration of the contingent of teachers, loss of interest in education and scientific research among university students, elementary and secondary school students dropping out, so that speaking of a "crisis in education" is certainly not mere alarmist talk. In the social domain, there have been incidents of discrimination and attacks against intellectuals, and a general decline in social morality.

Education is a matter of fundamental importance for generations to come. It is truly an important issue that has a bearing on the life and death of a nation and a civilization. What the modernization drive needs are talents with knowledge and education, and from an even more extended long-term point of view, there is the urgent need to raise the educational quality of the Chinese people, as otherwise speaking of a high degree of material civilization and spiritual civilization will remain mere empty talk. "The man who neglects education will stand condemned through the ages." Is this bitter outcry not expressing the worries and misgivings of the thousands upon thousands of men of breadth of vision?

#### **Increase Theoretical Research, Advocate Academic Freedom**

An important special characteristic of China's academic tradition is giving priority to knowledge over theory. It still remains to prove that this is due to some trait in the national character of China, but there is undeniably here a natural link to the reliance on experiences (accumulated experiences constitute knowledge) in the workings of an agricultural society. There is still a large market

today for the empirical theory of knowledge. It is exactly ten years since the debate about practice being the sole norm of truth, but some people still have a narrow and lopsided way of understanding in this matter. One-sided emphasis on practice, neglect of the role of theory, leading up to certain problems in leading and guiding ideology, neglects overall consideration and long-term planning, and neglects theoretical research. If it is said that at that time, due to a lack of theoretical preparation for the reform, that kind of a mentality was still understandable, then now, ten years later, if the reform is still guided by empiricism, neglecting the scientific nature and foresight of theory, it will only lead to obstructions and difficulties in China's reform. The vacillations and variations of some reform policies during the last few years also indicate that a policy without theoretical foundation cannot maintain relative stability.

Today's reform and opening to the outside world pose for us a series of theoretical questions: what is the meaning and essence of socialism, the negative and positive role of capitalism, the relation between the traditional system of socialism and bureaucratic politics, handling the relationship between the party, the government, and the people, the distribution of power among the various social organizations, the relationship and coordination within one whole of economy, politics, culture, ideology, and reform, the special theoretical peculiarities of socialism with Chinese characteristics, etc. All these questions await further elucidation and conclusive debate, and the solution of these theoretical problems will in turn promote the development of China's society. However, a theoretical research which is so closely linked with the social realities can only be conducted in an atmosphere of academic freedom and without any forbidden zones in science. That persons have been attacked, who have done theoretical explorations linked with the Chinese reality (and not merely providing theoretical explanations on the basis of authoritative data) and who have provided original views, are phenomena that have indeed occurred in China's past political life. This is inseparably linked with the lack of democratic atmosphere, lack of respect for scholarship, and the relation of theoretical research and theoretical debate with political standpoints. Viewed under these aspects, it would be extremely unfair to reproach the Chinese theorists for not linking up with realities. Chinese theoretical research has reached the time of bursting out from all entangling nets, a time of liberation of minds, of breaking away from dogmatism, and of linking up with reality.

**Leaders Urged To Accept Responsibility, Adhere to 'Three No's' for Honesty**  
40050063a Beijing DANG JIAN [PARTY BUILDING]  
in Chinese No 8, 5 Aug 88 p 29

[Article by Li Yuxing 2621 4416 5281: "Leaders Must Be Honest themselves"]

[Text] Complaints have been growing, to the extent that they are heard almost everywhere, about the misuse of power and dereliction of duty by party and government

organizations and leading cadres for selfish ends. How to keep party and government organizations honest has become one of the most-talked-about subjects. To keep party and government organizations honest, it is of course necessary to have a sound system, strict administrative rules, and law and discipline. But to make all this work, the key lies in the "honesty" of party and government cadres, particularly leading cadres. I have come to this conclusion after reading the remarks by two leading cadres. One of them is Li Ruihuan [2621 3843 3883], mayor of Tianjin. He said: Honesty in a government organization begins with the honesty of its leader and his children, wife, and secretaries.<sup>1</sup>

The other is Zhang Haoruo [1728 4110 5387], newly appointed governor of Sichuan Province. He said that to be an honest official and to improve his work style, he made a rule of "three no's" for himself: "no informal notes; no speech-reading; and no inscriptions."<sup>2</sup>

"The doings of superiors are imitated by inferiors." Though not always true, the saying has been borne out often enough by experience. The corruption and dishonesty in departments, units, and areas are in most cases related to the corruption of their leaders. Therefore, the leader who keeps himself honest has made a good start in keeping his organization honest.

The meaning of keeping oneself honest is clear and needs no further explanation. A leader must be the first in doing what he asks his subordinates and the masses to do; he must be the first in not doing what he asks his subordinates and the masses not to do. If he fails, he should be punished according to regulations as everyone else. "An honest leader can expect honesty in others without ordering them to be honest; a dishonest leader cannot expect honesty in others even if he orders them to be honest." "If a leader is not honest himself, how can he ask others to be honest?" These words make a lot of sense. "Children, wife, and secretaries" can be regarded as an extension of "oneself." In fact, some leaders' children, wives, and secretaries have faked "orders" in the leaders' name to carry out improper activities. When their wrongdoings become exposed, the blame is placed on the leaders, who deserve to be blamed. When an order comes out from a leader's "mansion," how can anyone outside tell whether it is legitimate or not? In any case, the "leaders" are responsible, for it is their laxity and bureaucratism that make phony "orders" possible. Crooks often work through a leading cadre's child, wife, or secretary (in addition to these three, other people close to the leader are also used sometimes) to open doors and get things done. Therefore, Comrade Li Ruihuan also demands honesty of his "children, wife, and secretaries." His remark is based on insight gained from his experience as an official.

The same can be said of Comrade Zhang Haoruo's "three no's," which are also a way for leading cadres to keep themselves honest.

First, "no informal notes." No one knows when it all started, but "informal notes" have become a common way for getting things done in China—from buying cigarettes, color TV's, and bicycles to joining the army, school enrollment, employment, and construction of office buildings, auditoriums, and hotels. In the past few years, "informal notes" have found their way into the realm of commodity circulation. Even commodities in short supply or under unified state control can be illegally allocated or transferred according to instructions given as "informal notes." As a result, normal state plans are disrupted; order in the operation of the commodity economy and the law of market and value are distorted; and the work style of the party and society as a whole are taking a turn for the worse. But those who write the "informal notes" and those who carry them are making money at public expense. Naturally one must have position and power to be able to issue "informal notes." The "informal notes" have a direct relationship with the issuers' position and power. The higher and greater the issuer's position and power, the more effective his "informal notes." The common people have suffered long enough from the "informal notes."

Next, "no reading prepared speeches." Some "leading cadres" like to give speeches in public, even though they are unfamiliar with the subjects and have no ideas of their own. Because they don't know what to say, speeches are written, by secretaries or other people, for them to read out word by word. This, too, has been a long-standing practice. During the decade of domestic turmoil, some people made fools of themselves by reading out the remarks "parenthesis, wait for applause here, parenthesis" in their prepared speeches. Nowadays, these kind of funny mistakes are rare, but mispronounced words and broken sentences are still commonplace. They could hurt the image of the leading cadres and even the party and government.

Finally, "no inscriptions." The party Central Committee has already called on leading cadres to avoid writing inscriptions. However, in the past few years, instead of being curbed, the practice has been growing.

Therefore, Comrade Zhang Haoruo's "three no's" are a sensible decision based on a clear understanding of the masses' feelings.

Of course, there is much more to keeping oneself honest, and even more to honesty in government, than Comrade Li Ruihuan's "keeping one's children, wife, and secretaries honest" and Comrade Zhang Haoruo's "three no's." Nevertheless, I think that "keeping oneself honest" is the first step in the right direction. If every party member and, particularly, every leading cadre will "start from themselves" and "keep themselves honest," I have no doubt that we will have honesty in government and our party style will be healthy.

#### Footnotes

1. YANGCHENG WANBAO 24 May (no pages given)
2. RENMIN RIBAO OVERSEAS EDITION 23 May (no pages given)

#### 'Assistants' Contribute to Corruption

40050063b Beijing DANG JIAN [PARTY BUILDING]  
in Chinese No 8, 5 Aug 88 p 31

[Article by Ma Benli 7456 2609 3810: "Get Rid of Those 'Assistants'"]

[Text] It is said that in some temporary organizations in the Qing Dynasty, there was an "assistant" position, known as a "bangban," [administrative assistant] whose job was to assist the boss in daily routine. Today, in some leading organs, there are those who would rather act as the leading cadres' surrogates in corruption than help them do a good job according to the party's principles. People treat these "assistants" with contempt and refer to them as the "stinking bootlicking bangbans." It's not nice, but people use the epithet as a way to vent their anger against the wicked "snobs" and "sycophants" who fawn on their superiors and barter away principles.

In the past few years, some leading cadres, even senior ones, unable to withstand the trials of being in power, the reforms, and the policy of opening to the outside world, have used their position and power to seek personal gain, and they have received the punishment they deserve. This is the way it should be. Otherwise, it is impossible to promote healthy tendencies, win popular support, and advance the party's cause. Therefore, any effort to strictly enforce party discipline must begin with the leading cadres. This is the key to correcting the unhealthy tendencies and checking corruption. However, it is only one aspect of the problem.

The other aspect of the problem is the fact that some comrades choose not to resist a few leading cadres' illegal acts and unreasonable demands, but to actively "assist" them, even cater to their desires, and offer ideas and suggestions. This kind of assistance, service, and toadying, unprincipled and at the expense of party spirit, not only have made it possible for some people to make selfish gains, but have had the harmful effect of abetting the spread of the unhealthy tendencies. No wonder they are detested by the masses. No cadre who tries to use his power to seek personal gain can succeed without the help of comrades in organizations or departments in charge of personnel, money, or materials. If the staff members in one or more offices adhere to principle, act in accordance with regulations, strictly follow discipline, and do not let the lawbreakers have their way, then many illegal activities will never have happened. It is regrettable that some of these staff members choose to play up to those in power out of selfish reasons.

The act of using one's power to seek personal gain has always been strongly condemned by the masses. The despicable behavior of toadying to one's superiors is also always despised by honest and upright people. Why, then, are there still those who are willing to help perpetrate the unhealthy tendencies? There are several reasons:

1. They are afraid to displease people with power and influence, who can make things difficult for them, and whom they cannot afford to offend.
2. They choose to drift with the tide, believing that it is the popular thing to do and that adhering to principle is asking for trouble.
3. They see no reason not to do someone a favor at public expense, as it will cost themselves nothing, and the "friends" they make may someday return the favor.

4. They look for a protector to help them secure personal advancement, being opportunists who believe that "no matter how hard one works, one will get nowhere without the leading cadre's approval, and a good word put in by the leading cadre is better than any amount of hard work."

5. They make money for themselves while making money for their superiors, getting rich and famous at the same time.

In all cases, these people help their superiors make money while pursuing their own selfish ends. Yet there is a difference. Some of them are not bright, and the others are bad.

It is obvious that to strictly enforce party discipline and correct the unhealthy tendencies, not only is it necessary to pay attention to the leading cadres, but it is also imperative not to let the "stinking bootlicking bang-bans" get away.

## NATIONAL AFFAIRS, POLICY

### Possession, Ownership, Operation Relationships Defined

40060030 Beijing ZHONGGUO SHEHUI KEXUE  
[SOCIAL SCIENCES IN CHINA] in Chinese  
No 5, Sep 88 pp 3-18

[Article by Yu Guangyuan 0060 0342 6678: "A Reexamination of Possession and Ownership and Their Relations to Management"—first paragraph is introduction.]

[Text] This article begins with an analysis of the concepts of possession, ownership, and other basic ideas and proceeds to explore in detail the formulation of property rights, operation rights, and "the separation of the two rights." The author feels that both property rights and operation rights can be apportioned, and the breakup of these rights can lead to all sorts of complications. During the reform of the socialist state-run enterprises, what we need to resolve is the issue of who should have the operation rights, that is, whose control of the operation rights would benefit socialist economic development most? We must tackle the operation rights issue vigorously.

The author Yu Guangyuan was born in 1915 and is a member of the Chinese Academy of Social Sciences.

Many questions that have emerged in the restructuring of the economic system in China have to do with the basic concepts we deal with in this article. These concepts have been discussed repeatedly in the Marxist classics and other Marxist writings. In recent years, some incidents have prompted me to reassess these concepts. Here, I want to write down the process of my rethinking and my thoughts after the reassessment, and I welcome comments from my comrades.

#### I. Possession

Possession is a relationship between a subject and an object (specifically, a certain subject and a certain object) whereby the object is in the domain of the subject's exclusive wishes. That is to say, they are in a relationship where the subject not only dominates the object but the domination is exclusive and monopolistic—it excludes the wishes of any other subject over this object. The subject's wishes may be in different forms and may affect the object in different ways. Except for the constraints inherent in the object itself, complete possession means the subject's domination over the object has no constraints. If the subject's domination is constrained, it is not complete possession.

Dominating the object and "governing" the object are synonymous. Government is the active expression of possession.

Use is one form of governing the object in one's possession. "Over-use" and "non-use" are within the limits of "use." They are also ways of using and governing. To use something fully includes "abuse" and "disuse." Of course, "use" is limited by the constraints inherent in the object. For example, we cannot use cotton to slaughter cattle or sheep.

Destroy or transfer are also ways of governing. But if an object is destroyed or transferred, the subject who chooses to govern in this fashion would lose his possession. Possession becomes non-possession. Of course, between complete loss of possession and complete possession, there is a range of intermediate conditions.

The subject in possession of an object can be a person or a group or even an entire country or society. Possession is the exclusive realm of the wishes of a subject. Very often, other wishes may interfere in the exclusive realm of the original subject. This is encroachment of possession. When possession is being encroached on, it means another subject is trying to possess the same object.

#### II. Possession Can Be "Possession Via Use" or "Possession Without Use"

Using an object is one expression of possession. I call it "possession via use." Only when an object is being used can there be "possession via use," and one can use an object only if one has "possession via use" of that object. The opposite of "possession via use" is "possession without use." The latter has two possibilities. One, the subject deliberately leaves the object in a state of disuse. Two, the subject who possesses the object deliberately lets it be used by another subject, but retains possession in a way which allows him to acquire some kind of economic benefits. In other words, another subject's use of the original subject's possession is not an encroachment of possession; rather, it is the special way the original subject has chosen to govern the object. The original subject retains possession, but his possession is not manifested in his own use, and therefore, to the subject, this is "possession without use."

#### III. "Possession Via Operation"

Within "possession via use" there is a kind of "possession via operation." I define operation as a "social practice which seeks direct benefits."

Because there are different kinds of benefits, there are many social practices which seek benefits, and there are many kinds of operations. Take the sponsoring of a free lecture as an example. What the sponsors of this social practice want (just as an example) is to more or less improve the people's mind. This kind of result is propaganda education, and therefore this type of social practice operates within the realm of propaganda education. In this article, we want to discuss only the kind of operation which is "a social practice which directly seeks

economic benefits," that is, economic operations. For convenience, unless otherwise specified in this article, "operation" refers to economic operations.

In an economic operation, we have to put some objects to use. In this case, "possession via use" is "possession via operation." All uses of certain objects do not necessarily seek direct economic benefits, and therefore "possession via operation" is only one kind of "possession via use."

In this definition of operation, my statement of "seeking economic benefits directly" is directed at "seeking economic benefits indirectly." The scope of indirect economic benefits is very broad. It can include many social practices outside of the economic realm, and even within the economic realm, there are many social practices which do not seek economic benefits directly but have a significant effect on the pursue of direct economic benefits. The restructuring of the economic system is such a social practice. It removes obstacles and creates better conditions for economic operations, but reform itself is not within the realm of economic operations. "Direct" and "indirect" are relative terms and should not be taken as absolute. We cannot cleanly separate "direct" and "indirect," but this should not affect the above definition of operation.

#### IV. Ownership—Property

The word "ownership" is not found in Chinese classics. It was translated from foreign writings. The word "ownership" used in translations of Marx and Engel's writings is translated from the German word *Eigentum* used in the original text. The root of *Eigentum* is *Eigen* which means "one's own," and it is an adjective. With the suffix *tum*, the word becomes a noun.

This German word is also often translated into "property" in Chinese. That is also correct. In German, "ownership" and "property" are the same.

In Chinese, however, "ownership" and "property" are two different things, and they are used differently in a sentence. Taken literally, to "own" is a verb. "Ownership" as a noun comes from a verb and not an adjective. When we use the word "own" in its noun form, it is always used in the abstract and does not refer to a specific object. For example, we never say "this house is someone's ownership"; instead, we say "this house is under someone's ownership." The word "ownership" only conveys a certain relationship and does not signify a specific object. "Property" however, directly refers to a specific object, or a specific item. For example, "this house is someone's property."

Personally, I think with two separate Chinese words "ownership" and "property" make writing and conversation easier, and it is to our advantage to keep their meanings separate, but we should realize that both words refer to an economic relationship between people, a

personal relationship pertaining to something. For the sake of uniformity in writing, in this article, I intend to use only the word "ownership" and use it to mean property too, and if the writing appears awkward at times, just substitute the word "property."

What kind of personal relationship is "ownership" ("property")?

I want to define "ownership" ("property") in the following way to make it more clear: "ownership (property) means the sheer possession of a certain object entitles one to acquire economic benefits."

This definition indicates that for the concept of "ownership" to be tenable, there must be two fundamental elements: one, there must be possession of an object by a subject. It is now clear that this possession is "possession via ownership." Two, ownership alone, without taking part in any operation, generates economic benefits. Until it realizes economic value, ownership is not realistic. Ownership which does not bring any economic benefits basically is not ownership. In his "Theory of Surplus Value," Marx's example of the shabby overcoat demonstrates this last point clearly.

#### V. Possession Via Ownership

The concept of "ownership" is a concept of possession, but it is not possession in general. It is a particular form of possession.

There are different forms of possession. "Possession via operation" which is a form of "possession via use" is one example.

Possession can bring economic benefits. The economic benefits brought by "possession via operation" are generated directly by the operation. Another kind of possession can generate economic benefits merely by having possession and does not require participation in any business activity by the subject himself. This kind of possession we call "possession via ownership," or simply "ownership." The economic benefits brought by "possession via ownership" naturally can only be generated directly by an operation. The economic benefits directly generated by an operation are its gross economic benefits, but the economic benefits acquired through "possession via ownership" are only a part of the gross economic benefits. "Getting economic benefits" is not unique to "possession via ownership," but getting economic benefits without engaging in any operation is unique to "possession via ownership."

After thinking about it over and over again, I have come to the conclusion that the concept of "possession via ownership" does not include "possession via operation," because the latter is tenable only during an operation. Where there is no operation, there can be no "possession via operation." When the subject who possesses the

object participates in an operation, "possession via operation" occurs in the subject's possession. If the subject himself does not participate in any operation but rents out his possession, "possession via operation" does not occur in the subject's possession; instead, it occurs as the "possession via operation" of another subject. But whether a subject uses or rents out his object, his "possession via ownership" remains intact. Using something or renting it out are means of realizing the economic value of "possession via ownership." If the subject rents out his possession, he is only giving up the "use" option to achieve "possession via ownership"; he is letting someone else do the work and is exacting rent from the operator during the rental period according to the rental agreement to achieve "possession via ownership." The "possession via ownership" is the same before and after the rental; it remains the "possession via ownership" of the original subject. Furthermore, as far as the economic benefits are concerned, the amount remains the same. The only difference is, subsequent to the rental, the original subject loses his "use" option. This option can be deemed a part of "possession via ownership," but it is not the essence of "possession via ownership."

## VI. Ownership Rights and Operation Rights

In Chinese literature, most writers do not make a serious distinction between "ownership" and "ownership rights." Actually, these two are different concepts. As explained earlier, "ownership" is an economic relationship. "Ownership rights," on the other hand, are the legal rights pertaining to ownership. Economic relations and legal rights, of course, are interrelated, especially over ownership and ownership rights, and the reason we often confuse the concepts of "ownership" and "ownership rights" in the Chinese language is because of this close relationship. Ownership and ownership rights, however, belong in two different realms. "Ownership" is the economic concept, and "ownership rights" are the superstructure. The relationship between "ownership" and "ownership rights" is the relationship between the economic foundation and the superstructure. Ownership rights are the legal reflection of an economic relationship known as ownership. They specify what form of "ownership" will be legally recognized and protected in what kind of social system, and what form of "ownership" will not be legally recognized or protected. Only if we have two different concepts and two different terms for "ownership" and "ownership rights" can people study and express the relationship between the two. If we mix them up, we cannot study nor express the relationship. Therefore, we must correct our tendency to use those words loosely. In some circumstances, however, it may seem that we can get by without making the correction. For example, to say "the collection of rent and interest is the economic manifestation of 'ownership,'" and to say "the collection of rent and interest is the economic manifestation of 'ownership rights'" are both correct, which seems to imply that "ownership" and "ownership rights"

are interchangeable. But strictly speaking, the two sentences have entirely different meanings. The former pertains to the inherent law of "ownership," while the latter pertains to the legal rights of "ownership" which can be transformed into economic reality. If we try to make a distinction between "ownership" and "ownership rights," we can express our meaning more clearly and precisely.

Furthermore, if we had translate Marx's "ownership" as "ownership rights," we will not be able to bring out the meaning of "ownership rights" here. If Marx and Engels had originally meant to say "ownership rights," that is, if they had added the word "right" to their original wording to create a new term, then how should we translate that term into Chinese? Should it be "the right of ownership rights"? Thus, it makes sense to translate the word they used as "ownership" when it appears without the word "right" and as "ownership rights" or "property rights" otherwise.

The legal issue of operation rights in general will not be discussed in this article. Here, our main concern is whether possession via operation is legally recognized and protected. If it is recognized and protected, then the concept of "operation rights" as a legal right is tenable.

It should be pointed out that the "law" we are talking about here not only includes "statutory laws" but also "common law," and not only laws but all kinds of rules and regulations, and they include formal rules and regulations and informal provisions, articles and so on.

## VII. Owners Versus Operators

Ownership and operation are two different concepts. "Possession via ownership" and "possession via operation" and the manifestation of their respective legal relationships—ownership rights and operation rights are also different concepts. The respective subjects of "possession via ownership" and "possession via operation" are the often referred to owners and operators.

History tells us that owner and operator can be the same entity, or they can be different entities. In a feudal society, we can make two cases. In one case the landowner manages his own land. He makes the serfs work on the land and serve him. In the past, many feudal lords managed their own manors. Even today, during the land reform era in China, in separating the rural classes, there was a subclass of "operator-landlords" within the landlord class. In another case the landlord rents out the land to the peasants, that is, renting to his own tenant farmers. In this way, the landlord does not participate in the operation but receives rent. In this situation, the owner and the operator are not the same subject.

Under the capitalist system, there are working capitalist (the functional capitalists) and non-working capitalists (the money-lending capitalist.) Marx discussed these two groups of capitalists in Volume 3 of his *Das Kapital*. For

example, in Chapter 23, "Interest and the Income of the Entrepreneurs," of Volume 3 of *Das Kapital*, Marx said, "the functional capitalist gets his entrepreneurship income not from his ownership [right] of capital, but from the inevitable antagonism between capital and its entirely irrelevant ownership [right] which gives him the [right] to demand an entrepreneurship income. If the entrepreneur has borrowed capital for his operation, and therefore the interest income and the entrepreneurship income must go to two different people, the result is direct antagonism. The entrepreneur's income is derived from the function of capital in the reproduction process. In other words, that income is derived from the functional entrepreneur's participation in an activity or operation to exercise the functions of industrial and commercial capital. A functional capitalist, unlike a money-lending capitalist, does not get an income by holding a sinecure. In capitalist production, the capitalist directs the production and circulation processes. Even exploiting productive labor requires energy, whether it is his own energy or somebody else's energy."<sup>1</sup> (I have added brackets for reasons explained earlier. "Holding a sinecure" I think can be better translated as "getting much without doing anything, because money-lending capitalists are not wage earners.)

What Marx referred to as functional capitalists are capitalists who have operation rights. They do not have "possession via ownership," but they have "possession via operation."

### VIII. The Relationship Between Ownership and Operation

With the above explanation, we can take a further step and talk about "ownership" and "operation," or the relationship between "possession via ownership" and "possession via operation."

Earlier, we said that operation is the social practice which seeks direct economic benefits. That is to say, the economic manifestation of "ownership" is the acquisition of a share of the economic benefits generated by an operation. This is a relationship. Failing to get a share of the economic benefits generated by the operation, ownership will have no economic value. Thus, we can consider "operation" the basis of "ownership."

If we further consider that operation cannot proceed without "possession via operation," then we must conclude that "possession via operation" is the basis which makes "operation" possible.

Operation is the foundation of ownership—not only is this true for the above reason, but this conclusion can be drawn from history too. Since the beginning of mankind, there has been social practices which seek direct economic benefits; there has always been business operations (naturally not in the contemporary sense). Business activities have continued, and will continue until the end of time (perhaps for some astronomical reason, earth is

destroyed). "Ownership," however, emerged much later. People have been around long before there was "ownership," but business operations originated with the human race. We all know about Engel's famous book on "property," that is, the origin of "ownership."

As for operation being the foundation of ownership, we can make our observation in two places. First, we can look at the relationship between "operation" and "ownership" from the point of "possession via operation" and "possession via ownership" of an object. Second, we can look at the same relationship from the point of the development of society as a whole. The latter observation corresponds to the issue of the interrelationship between the productive forces and the productive relations. Here, I only want to mention this issue in passing and do not want to elaborate.

In a situation where the owner, the subject of "possession via ownership," and the operator, the subject of "possession via operation" are not the same entity, a part of the economic benefits acquired by the operator will be taken away by the owner as the economic manifestation of his ownership. In this way, the abstract rule inherent in ownership and operation becomes a concrete phenomenon, and in this phenomenon, the difference between "possession via operation" and "possession via ownership" becomes very clear.

Another situation is where the owner and the operator are one and the same. Under this condition, the subject is the "operator-owner" mentioned earlier. The economic benefits earned by this subject include the economic benefits generated by ownership as well as the economic benefits generated by the operation. Compared to the simple "owner," the "operator-owner," because he is also the operator, gets more benefits, because he has put a lot of thought and energy into his own operation, and he has seized the opportunities to reap greater profit. Unlike the simple "owner," the "operator-owner" does not have to pay the owner a price for the right of possession via operation, and that is also why he gets more economic benefits. Here, the fact that the operator is also the owner gives the operator an absolute advantage. As Marx wrote about the owner-peasants in *Das Kapital*, "land ownership is one of the factors of production for the immediate producer, and his right to own land is the most favorable factor in his production mode."<sup>2</sup>

### IX. General Operations Versus "Property"-Oriented Operations

General operations produce output by using material goods and labor, and the purpose is to circulate goods and money. They are operations which create economic benefits. Within the realm of general operations, there can be many different focuses and many different types of operations.

There is one special kind of operation which targets "ownership" or "property." It is also a social practice which seeks direct economic benefits, but it creates no economic benefits; it only reaps economic benefits, and therefore we do not consider it a general kind of operation. In reality, there is nothing special about this kind of operation, because every owner who wants to realize the economic value of ownership engages in this kind of operation. When a landlord collects rent, or when a money-lending capitalist collects interest, some effort is required; however, in a modern society, this type of operation has developed into a trade—a specialized business operation which targets "ownership" or "property."

To make it easier for the readers to understand, I will not use the word "ownership" in this section again, but will use the word "property" to mean the same thing.

An example of this special kind of operation which targets "property" is the collection of taxes by the state. The collection of taxes is specifically for the purpose of realizing the economic value of the state's properties. It is a social practice which the state, as the owner, must participate in to obtain economic benefits. As we all know, under state ownership, how successful the state is in collecting taxes will determine how much revenue it will have. The tax collection department specializes in this special operation.

On the relationship between taxation and the state-ownership system, I want to quote Engels who said, "the state's right to collect taxes stems from the state-ownership system. Indeed, either because the system of private ownership is sacred and therefore there should not be a state-ownership system and the state should have no right to collect taxes, or the state does have the right, then the system of private ownership is not sacred, and the state ownership supersedes private ownership, and the state becomes the true master."<sup>3</sup> The passage says if the state-ownership system is a system which generates economic benefits for the state, then conversely, the fact that the state can acquire economic benefits without participating in the general operation mentioned above proves the existence of the state-ownership system. But if the state fails to participate in the social practice of collecting taxes, then the state's properties cannot realize their economic value, and under this situation, the state's properties are not real. If the state does engage in taxation activities, including such activities as defining the tax categories, establishing a tax system, and setting up tax collection organs and a contingent of tax collectors, then the state is taking part in an operation which targets the state's properties.

The collection of property tax, capital tax, and estate tax are among the more obvious levys which target properties.

Property transfer is also the target of this kind of special operation. Because properties have different natural attributes and different social elements, and because the transfer of properties can be in different forms and under different conditions, operations which target property transfer have become industries which serve different purposes and operate in different ways.

Since the founding of the PRC, because in theory we have taken Marx's and Engel's general concept of a future society to be their concept of an actual system for a particular country at a particular time, and therefore we have basically adopted a negative attitude toward this kind of special operation. If some of the state-owned means of production had been put into operation, the state could have acquired substantial economic benefits, but they have not been put into operation, and in fact, such operations have been denied.

Here, I particularly want to take landed property as an example. There is no doubt that Marx and Engels said that there should be no rent in a communist society or a socialist society. But that was a part of their general concept of a communist society and a socialist society and not in reference to a specific developmental stage of a communist society or socialist society, and especially not during the transition from a capitalist society to a socialist society nor in a fledgling socialist society, and most of all, this was not what they had planned for the development of communism. They did not, nor would they, as scientific socialists, have that kind of specific conception. In 1867, Engels wrote, "Marx is, and will always be, the steadfast revolutionist, and he is the only one who would reveal this kind of viewpoint completely in his scientific writings. But he has only talked in very general terms about what society will eventually become after all the changes have taken place."<sup>4</sup> Of course general discussions are very important, but to mistake them as Marx's and Engel's specific conceptions will turn the founders of Marxism into dreamers, and we would be disrespectful of Marx and Engels. Marx and Engels had always insisted on a serious scientific attitude and had rejected any kind of fantasy, but their philosophy did not stop at explaining the world; more importantly, they wanted to transform the world, and therefore they had always emphasized a program of action for the revolution, and they had specific plans for what the proletariat should do after they seized power. When discussing this issue, they did not say that the land ownership system should be abolished right away. In the Communist Manifesto, among the first measures they put forward for the revolution is "to seize landed properties and use the rent to pay for public spending."<sup>5</sup> We can find many similar discussions among Marx's and Engels' works. But we have never paid attention to these discussions, and instead we have only concentrated on textbook discussions of the abolition of rent in the future society and have denied that socialist society can, and should, operate a real estate business. The result is, despite the fact that the PRC's constitution has stipulated that urban lands are the property of the state, and the state

could have taken advantage of the land they own to acquire substantial economic benefits and increase government revenues, we have not done so. This situation has begun to change only in recent years.

#### X. The Apportionment of Ownership Rights

The ownership rights in a certain object may belong entirely to one subject, or they may belong to several subjects. Ownership rights can be apportioned in different ways. One way is if a certain object is inherently divisible, and the apportionment of ownership rights only divides the larger object into its smaller parts so that different parts now belong to different subjects.

For example, *The Book of Songs* is a famous Chinese classic. Among the hymns, a verse in "Little Elegance—North Mountain" [xiao ya bei shan 1420 7161 0554 1472] can be translated into modern language to mean, "all the land under heaven belongs to the emperor, and all who live on earth must do corvee labor for the emperor." The following sentence says, "the officials are too unfair. I am the only one to make a contribution." As we know, Zhou Dynasty practiced a system of enfeoffment. Except for a piece of land the emperor kept for himself, all the land was divided among the nation's highest nobilities, and each nobility reserved a piece of land for himself and divided the rest among the lower ranking nobilities, and so on. Then what is the meaning of "all land under heaven belongs to the emperor"? Because the emperor could make all who live on earth serve him, that is, pay rent in the form of corvee labor, and this proved that all the land belonged to the emperor, although in fact the property rights in the land were divided among the emperor and all the nobilities. This situation still exists in modern nations, including socialist countries.

Another way of apportioning ownership rights is if the object cannot itself be divided up but the property rights are divisible in the economic cycle. We can use the example of bottom land rights and top soil rights to illustrate:

Before the war of resistance against Japan, villages in southern China practiced a system whereby the property rights in the farms were divided into top soil rights and bottom land rights. The owner of the bottom land rights could exact rent by virtue of those rights, and the owner of the top soil rights had perpetual right to cultivate the land, but had to pay rent to the person with the bottom land rights. Top soil rights originated with the perpetual tenancy right system but exceeded the scope of perpetual tenancy rights, because like bottom land rights, top soil rights could be bought or sold or given away or transferred in any form. A person who originally has all the ownership rights in the land has the right to take back the land when the lease expires, or he can raise the rent. But if he sells the top soil rights, he can never take back the piece of land, nor can he raise the rent, and therefore he no longer has complete ownership rights. The person

who has the top soil rights has possession of the land via operation, and furthermore, he can rent out the land. In this respect, owning the top soil right and the bottom land right are similar, and therefore we have to acknowledge that the former has acquired some ownership rights in the land. In fact, his ownership right in the land is very clear under one situation, which is when the person who owns the top soil rights manages to exact a higher rent from the person who uses the land than what he has to pay the owner of the bottom land rights, then he can use his top soil ownership rights to acquire economic benefits without doing the work. From this standpoint, by virtue of his top soil rights in the land, he has secured the part of the ownership rights which entitles him to profit from subletting.

When we study the relationship among the many different socialist ownership systems in a socialist society, we will come into close contact with many different ways of apportioning property rights. They permeate and integrate the different ownership systems and different kinds of operations in the socialist system and emerge in different formations, and although on the surface we cannot distinguish them, if we carefully analyze the participants and their economic benefit relations and see the way they acquire economic benefits without work, then we can easily figure out the relationships in their apportionment of ownership rights.

#### XI. The Apportionment of Operation Rights

Not only can ownership rights be divided, but operation rights can be apportioned too.

The issue of operation rights is of major concern during reform, and indeed it is the core issue in the present reform of the socialist state-ownership system. Enterprises' lack of right to run their own business is the main reason for their lack of vitality. For the 9 years since the Third Plenum of the 11th Party Central Committee, we have been trying to solve this problem. At first, we wanted to increase enterprise right of self-determination, then we said enterprises should be untied, and finally, we promoted the theory of "separation of the two rights" and the practice of leased and contracted management responsibility systems. I think these measures are in keeping with the existing conditions in China.

One reform proposition is to let enterprises control all the operation rights and let the state retain only the ownership rights. That is, as long as enterprises pay taxes and turn over profits, the government and the management organs should not interfere in business matters. I do not think that this is feasible at this stage of the reform. The most we can do is to maximize enterprise operation rights and minimize the government's and the various departments' operation rights, that is, we can only redistribute or re-apportion the operation rights among the government, the managing organs, and enterprises.

There should be objective bases to why operation rights are divisible. Earlier, we discussed the many ways of apportioning property rights and so on. Apportioning operation rights involves the same conditions.

When we study operation rights carefully, we will notice that the first ingredient of operation rights is the need to utilize many different material media in an operation which gives rise to the right of the operator to govern their use. This also gives rise to the issue of the divisibility of operation rights stemming from the divisibility of the target of operation. The way the rights to govern the targets of operation are divided among the subjects will determine the way the operation rights are divided among the same subjects.

Next, we will also find the second ingredient of operation rights, that is, operation rights are founded on the functions of business operations and the discharge of those functions. Enterprises' operational functions are multi-faceted. Although many have been organically integrated, they can still be separated and put under the jurisdiction of different subjects. This way of apportioning the operation rights is an important topic in the study of socialist state-ownership system.

Furthermore, we will also find that the breakup of operation rights is achieved not by breaking up the object nor the functions. Rather, it is by participating in another subject's operation from the point of leadership in the organization and in ideology, and therefore in a way, it is taking away some of the operating rights of the other subject.

Reform may bring the following changes in the apportionment of operation rights: (1) from the standpoint of macroeconomic management, some functions of enterprise operation must be controlled by the government, and the government must control the corresponding operation rights. (2) Because some enterprise functions cannot be exercised by enterprises, and meanwhile, the government must rely on the managing organs to implement macroeconomic control, therefore, the managing organs will have substantial operation rights. (3) Enterprises will have many more operation rights.

## **XII. The "Separation" of Ownership Rights and Operation Rights**

Since ownership rights and operation rights are two different things, naturally they can be separated. But strictly speaking, it is not an issue of separation but a question of whether the owner and the operator are the same subject or different subjects, or as I said earlier, it is the complicated situation resulting from the apportionment of property rights and operation rights.

In discussing the issue of the separation of ownership rights and operation rights, Chinese economists often cite Marx's discussion of the stock companies in Chapter 27 of *Das Kapital*. I do not think that discussion is about

the "separation of the two rights." Marx said, "the functional capitalists become simple managers, that is, managers of other people's capital, and owners of capital become simple owners, that is simple monetary capitalists....These ownership rights in capital are now completely alienated from the functions of capital in the reproduction process, just as the functions of the manager are completely alienated from the property rights in capital....The functions of a stock company have nothing to do with the ownership rights in capital, and therefore labor is completely alienated from the ownership rights in the means of production and the surplus labor."<sup>6</sup> These sentences indicate that the separation Marx was talking about was the separation of capital from the functions of capital in the reproduction process. From the point of the stockholders of a stock company, this separation means that they are the owners of capital, and they only receive dividends. They do not, and cannot, control what capital does in the process of reproduction, and therefore they are completely alienated from the functions of capital. From the point of the manager, he is no longer a capitalist; he is not even a functional capitalist; he owns no capital, not even borrowed capital, and therefore he is completely alienated from the ownership of capital. In short, what Marx was saying was that "the functions are alienated from the ownership of capital," followed by "and therefore labor is also completely alienated from the ownership of the means of production and the ownership of surplus labor." This means, before the practice of the stock company system, although the workers' labor had long been separated from the ownership of means of production, capitalists who exercised the functions of capital more or less still performed some work. But now capitalists do not even do the work associated with the functions of capital; they have become "simple monetary capitalists," and all work, including those associated with the functions of capital, are done by people who do not even own capital. This alone was the kind of separation Marx was talking about.

Today, we ask, do managers have operation rights? Sure, they have substantial operation rights despite the fact that they own no capital, or we should say, they have no ownership rights in capital. Of course, unlike the functional capitalists, their operation rights are not inherent. Their rights are vested by the board of directors of the stockholders of the stock company. Meanwhile, the stockholders still have basic operation rights through the board of directors. For example, they still make the major enterprise operation decisions and control the hiring and firing of managers. The manager exercises the everyday functions of capital as the manager of other people's capital. He has some power to govern the use of some of the capitalists' assets. But no matter how many operation rights he has been given by the stockholders, his is just a high ranking official hired by the stockholders, a skilled worker who takes responsibility for the enterprise's operation. He cannot acquire economic benefits as a capitalist, or we should say, by virtue of his being an owner of capital, nor can he acquire economic benefits via the functions of capital by virtue of his being

the executor of the functions of capital. All profits generated by his operation are taken away by the stockholders; all he gets is the wage of a "certain kind" of skilled worker, and the stockholders get an income in the form of dividends. On the surface, dividends are no different from the interest income earned by the money-lending capitalists, but in fact dividends include both interest and entrepreneurship income. Dividends are not the same as the interest income of the money-lending capitalist, because it includes entrepreneurship income. They are also different from the income of the simple functional capitalists, because it includes the income of a money-lending capitalist. If the money-lending capitalists make use of their ownership in capital to materialize, in the form of interest, their ownership in money without doing any work, then the stockholders make use of their status as monetary capitalists and lay out the same capital, and similarly, without doing any work, but by simply participating in a stock company, they get all the economic benefits of the operation. From the point of getting economic benefits by merely owning something without doing anything, we can say that dividends are "the reward, in the form of interest, of owning capital," and quantitatively, that means "all the profit." The fact that the same kind of monetary capital can realize economic value in two different ways is because dividends are not guaranteed.

### XIII. On the Issue of the "Separation of the Two Rights" in China's Socialist State-Run Enterprises

The purpose of China's promulgation of the policy of "separation of the two rights" is to correct the many defects in the country's enterprises and the state's management of enterprises under the socialist state-owned system. One defect is the vast operation rights the government and the regional managing organs hold in the socialist enterprises. Their rights are so extensive that they have worked to the detriment of the socialist economic development. One of the "reasons," or what is deemed the main "reason," for the tremendous power of the government managing organs in the socialist enterprises is the state's ownership of the means of production in the socialist state-ownership system. Some people think that as the owner, the state is entitled to vast operation rights, and as the state's representative, the government and the managing organs are entitled to exercise these vast operation rights. But when the defects of this kind of relationship between enterprises and the government and the managing organs are discovered, those who advocate change suggest the separation of the rights of ownership and operation. Although the socialist state holds the ownership rights in the means of production used by enterprises, and although the government and the managing organs represent the state, they should not hold the operation rights which belong to enterprises. To me, this is the purpose and the significance of the "separation of the two rights."

There is no validity in saying that ownership rights imply operation rights, because this reasoning can be refuted by two arguments: (1) ownership rights and operation

rights are inherently two different matters. (2) Owner and operator can be one and the same entity, or they can be different entities. Not only has history proved that if we concentrate operation rights in the hands of the government and the managing organs, it would rob enterprises of their vitality and impede economic development, but economic theories also have proved that it is wrong to think that because government and managing organs hold the ownership rights to enterprises' means of production, they should have vast operation rights. Of course, in theory we cannot reject that owners can also be operators, but since past experiences have demonstrated its adverse effects, and if it is possible to separate the owner and operator, we should restructure the present management system.

Sun Yefang [1327 0396 2455] was among the first Chinese economists to suggest that we should pay attention to the issue of ownership rights and operation rights under the socialist system. In 1961, he noted in a study report that "the issue of the financial economic system is an issue of operation and management rights and is also the possession, use, and government rights of what the jurists refer to as ownership rights." He suggested that "under the people's ownership system, the rights of possession, use and government are a single entity, but ownership rights are a separate entity. State-run organizations should be given a fixed amount of rights of possession, use, and government of state assets according to the purpose of their activities and how they intend to use those assets, but the owner of all assets is the state." Sun Yefang did not explain himself clearly but his basic idea was clear enough. Sun suggested that the "separation of the two rights" had long been a reality, or should have been reality, and suggested the separation of the two rights was entirely consistent with the socialist state-ownership system. But his view is not entirely consistent with the views of many people today. Nowadays, many feel that the "separation of the two rights" has not yet been accomplished and that it is something we still have to strive for.

In his study report, Sun Yefang said, "under the people's ownership system, by the time we are through with the issue of the ownership system, the issue of operation and management rights will take its place." Therefore, he suggested that the issue of operation and management rights should become the primary issue in the study of political economy. His viewpoint should be seriously considered. If, as we have seen, the evolution of operation rights had, and still has, major effects on the production relations in the capitalist system, then much can be said about operation rights in the socialist system. I feel that Sun Yefang should be lauded for his foresight in his suggestion that the evolution of the operation rights issue can affect the development of socialist production relations.<sup>7</sup>

The issue of the "separation of the two rights" brought out in the reform is in effect an issue of who should have the operation rights. Since ownership rights and operation rights are actually two different matters, and the

owner and the operator inherently can be two different entities, we can, and we should, rely on past experiences and on today's conditions to solve this problem of whose control of the operation rights would be to the greatest advantage of the development of the socialist economy.

#### **XIV. The Issue of Property Rights and Operation Rights in the Leased and Contracted Management Responsibility Systems**

Today, China is promoting different practices under the leased and contracted management responsibility systems, and up to now, we have not decided on a final format. Here, we shall draw a couple of hypotheses to analyze the ownership rights and operation rights under the two management responsibility systems.

First, suppose a situation where the reduction of the government and the managing organs' operation rights is minimal, that is, they retain maximum rights. Under this condition, the management responsibility contract will specify that if the contractor assumes the responsibilities from the government and the managing organs, he cannot alter the direction of enterprise operation, nor can he change the kind or standards of the product, nor can he increase the total wage bill of the enterprise and so on. Under this kind of management responsibility system, the government managing organs retain much of their original operation rights, but they no longer exercise their rights in everyday operations; instead, their operation rights have in effect been confirmed once and for all in the contract, that is, the contractor is required, during the contract period, to comply with the will of the original operator, the government managing department, on most matters, even if not all matters.

In other words, this situation shows that, after the parties have entered into contract, the government organs still have "prior" and "post" operation rights. The so-called "prior" operation rights refer to the operation rights of the government and the managing organs which have been preserved once and for all at the time the contract is signed, and these rights become latent elements in enterprises in the contracted management responsibility system. The "post" operation rights of the government and the managing organs in these enterprises refer to the fact that at the end of the contract period, the operation rights in the means of production must be handed back to the government and the managing organs. This fact must affect enterprise operation during the contract period too, and "post" operation rights of the government and the managing organs are also latent elements in enterprises in the management responsibility system.

A second hypothesis supposes maximum reduction of the operation rights of the government and managing organ, that is, they retain minimum operation rights. Under this situation, the leased or contracted management responsibility contract with the government or the managing organs will require nothing but that the lessee or the contractor pays a fixed amount of money (whether

this money is called rent, profit, or tax) for the means of production used by the enterprise. In this case, the government and the managing organs have no "prior" operation rights, but they have "post" operation rights, that is, after the contract expires and the enterprise is reclaimed, they can become the operator once again.

The above hypotheses are the extremes. The absolute majority of the contractual relationships in the leased and contracted management responsibility system falls between the two extremes, and the contents are more complicated and require careful analyses before their ownership rights and operation rights can be clarified.

In short, with the implementation of the leased and contracted responsibility systems, the earlier kind of direct and pure socialist state-ownership system has been weakened to various extent. The relationship between enterprises and the state has changed from a subordinate relationship to a contractual relationship. In entering into a contract, the lessee, the contractor, and the government managing departments stand equal, and during the contractual period, the government managing organs can no longer interfere in enterprise operations as before, and so no matter which management responsibility system is finally chosen, it will be a major reform as far as operation rights are concerned.

#### **XV. The Issue of Ownership Rights and Operation Rights in the Trial Stockholding System**

During the course of reform, many localities around the country have implemented a stockholding system on a trial basis. The stockholding system was suggested soon after the Third Plenum of the 11th Party Central Committee, and individual experiments have been going on for many years, but enterprises are testing the system and studying it only recently. The report of the 13th Party Congress clearly pointed out that "the stockholding system which has appeared during reform, including stock control by the state and stock participation by departments, localities, and enterprises and stock purchases by individuals, is one way to organize the socialist enterprise assets, and we should continue with the experiment." However, we have no prior experience with a socialist stockholding system. China's experiments on the whole are still in the early stage, and enterprises have adopted different forms of a stockholding system, but this is in keeping with the goal of having "experiments." The purpose of trial implementation is to discover problems and accumulate experience. We are far from being ready to finalize the stockholding system in our enterprises. Here, I only want to talk about the general framework of the issue.

I think we should look into the following areas:

1. Observing the former self of the stock enterprises: some of these enterprises used to be socialist state-owned enterprises; some were socialist collectively-owned enterprises, and some have been set up from scratch by a

unit or an individual according to certain principle. Different former selves naturally means different ownership rights and operation rights. For example, generally we will not find the state holding the majority stock in an enterprise which has evolved from a socialist collectively-owned enterprise, unless the state had bought huge shares at the time the stockholding system was adopted. We will probably find the state holding the majority stock in a former socialist state-owned enterprise. Operation rights in the stock enterprises will also resemble their former selves.

2. Many different entities may own stocks in the stock enterprises, therefore there is a variety of stocks: state stock, enterprise stock, workers' and staff stock, private stock intended for the general public, and so on. Different entities can all be enterprise owners. In a stock enterprise, the proportion of different entities which own stocks and the kind of relationship which ties these entities together will determine the apportionment of ownership rights in these enterprises.

3. Conditions which restrict stock purchases are crucial in determining the nature of the stock enterprises. They affect the composition of stockholders and the nature of stock companies in the socialist ownership system. Whether attempts are made to attract stock purchases in society or whether purchases are restricted to the staff and workers of the enterprise will naturally affect the nature of the stockholding ownership system.

4. As far as the rights and obligations of the stockholders are concerned, there are different rules in the present experiments. Among them, the most important of course are rules concerning dividends. Some enterprises guarantee dividends well above the interest rate on savings in the bank, and they do not require the stockholders to share in the risk if the enterprise operation fails. This kind of "stockholding system" is not strictly a stockholding system, and it cannot last. Some enterprises make all kinds of promises to attract stock funds, and actually they are just trying to raise the dividends.

5. As the number of stock enterprises increase, should there be a stock market? This question requires an answer. Without a stock market, it is not likely that the stockholding system can be popularized.

The 13th Party Congress report said, the stockholding system is one way to organize socialist enterprise assets. This is an issue about the ownership system. Then what is the difference between an enterprise in a socialist stockholding system and one in a capitalist stockholding system? How are the differences manifested? Will the stockholding system consolidate the socialist system or cause its disintegration? What is the future of the stockholding system in a socialist society? For clear and profound answers to these questions, we must rely on

materials gathered in the experiments, and using these materials, we must analyze the ownership rights and operation rights issue in the different stockholding enterprises.

This article has been a discussion of the concepts of possession, ownership and other related basic concepts and an analysis of some relevant issues from a theoretical standpoint. The writing is exploratory in nature, and I must do further studies in the future.

#### Footnotes

1. *The Complete Works of Marx and Engel*, Vol 25 pp 426-427
2. *Ibid.* Vol 25 p 694
3. *Ibid.* Vol 2 p 615
4. *Ibid.* Vol 1 p 272
5. *Ibid.* Vol 1 p 272
6. *Ibid.* Vol 25 pp 493-494
7. Sun Yefang: *Theoretical Issues On the Socialist Economy*, People's Publishing House, pp 139-140

#### Taking Social Burden of Price Reform Into Account

40060003 Shanghai SHIJIE JINGJI DAobao in Chinese 15 Aug 88 p 15

[Article by Zhang Chi 1728 7459, China Social Survey System: "Take Social Tolerance Levels Into Account When Deciding Price Reform Policy"—first paragraph is source-supplied abstract]

[Text] *Abstract: Prices are spiraling uncontrollably, channels for making money are limited, but certain social groups enjoy greater opportunity to increase their incomes. This state of affairs has had a big impact on the mood of the people, and dissatisfaction with inflation is mounting. Thus informed public opinion must assume the responsibility of guiding the masses and help them acquire a new sense of security. More importantly, the state should open up a variety of new channels through which people can earn a living, and should strive gradually to equalize opportunity.*

The China Social Science Survey System has conducted a series of studies on urban residents, obtaining the following findings. In November of 1986, 73.8 percent of the people surveyed expressed disgust with inflation; in May of 1987, 79.9 percent said they were dissatisfied with inflation; and in October of 1987, the proportion of people unhappy about inflation rose to 83.2 percent. Public opinion during the first half of this year continued to show dissatisfaction with inflation. So will society be able to tolerate further price rises? This question cannot be answered in terms of the absolute magnitude of inflation but rather must take into account three factors—the rapidity at which prices rise, the types of money-making occupations society permits, and the

level of equality different social groups enjoy with respect to increasing incomes. Analyzing the ability of society to tolerate inflation will enable us to better time and design price reform.

In terms of their material living standards, it is by no means the case that the masses cannot cope with the current inflation rate. The surveys indicate that living standards have neither declined nor improved over the past several years. Nevertheless, the current, uncontrollable spurt in inflation has had a big psychological impact on urban residents, who have long been accustomed to low, constant prices. Current inflation is not just the result of price readjustments carried out by the state but in fact stems largely from price gouging by units and individuals, which activities have caused prices to spiral uncontrollably at the macroscopic level. Wages, on the other hand, have not kept pace, and people can see that prices are outstripping their incomes and thus feel insecure.

Under the current system, most people are dependent on wages and lack opportunities to increase their incomes through normal channels. While some people resort to profiteering to increase their incomes, one can pull this off only by having powerful social connections. In other words, we are talking about "official speculation."

Given this system and the lack of opportunity to enhance income through other channels, the masses naturally have demanded continuous wage hikes from the state and inevitably become dissatisfied with price reform when the state fails to meet these demands.

Inflation has different impacts on different social groups, producing a variety of losses and gains among people enjoying different opportunities to earn income. For example, faced with price rises, individual entrepreneurs pass their increased costs off to consumers or use their funds to open up new avenues for money making. Government cadres take advantage of their authority to profiteer in the sale of goods and materials, approval of part supplies, and sales of licenses; enjoy preferential rights in contracting to run or in leasing enterprises and many conveniences in establishing profit-making companies, and the like. On the other hand, workers, especially employees of state enterprises, have neither funds, opportunity nor authority and thus can only "sigh as they watch prices spiral." The serious inequality of opportunity among different groups has exacerbated social contradictions and made people increasingly believe that society is unjust.

For more than a year, the government has adopted a series of measures to reduce dissatisfaction with inflation, such as cutting the number of price reforms slated for implementation, restoring rationing for pork and sugar during the last half of 1987, granting across-the-board cost-of-living subsidies to urban residents, cracking down on price gouging and disguised price hikes, and the like. None of these efforts, however, has been very

successful. Thus the proportion of urban residents who are disgusted with inflation rose to 92.1 percent in May of this year, an increase of 1.2 percent over the rate recorded during the same period last year. The reason for this growing dissatisfaction is that government policy has proved ineffective and failed to resolve the problem of inflation.

We must first of all frankly admit that we cannot bring inflation under control in the short run. This, however, does not necessarily mean that society will not be able to tolerate inflation. For toleration of inflation is not merely a function of the inflation rate but is also affected by the three factors examined above. Under conditions of rapid social change, people's psychological adjustment cannot keep pace, so people need a certain amount of time and the support of informed public opinion to adapt to new environments. Informed opinion should undertake part of the responsibility in doing this work, frankly admitting that inflation adversely affects people's lives, guiding people in establishing new patterns of consumption and money making, and helping people acquire a new sense of security.

It is not enough just to provide correct guidance from informed opinion; we must also open up a variety of new channels through which the masses can expand their incomes. To make headway in this area, we must get away from the old notion of complete dependence on state wages, encourage the development of privately run enterprises, establish markets for factors of production, liberalize rules governing the establishment of enterprises, and reform wage and personnel systems.

Meanwhile, we must also resolve the problem of unequal opportunity. We have not done enough in this area over the past several years, so opportunity is becoming increasingly unequal. The practices of "official trading" and "official profiteering," in particular, have contributed to the popular feeling that society is unjust. We should adopt a series of measures to encourage privatization in socioeconomic development and to encourage and help nonofficial, private individuals to establish and run their own enterprises so that each person—not members of special interest groups—enjoy the same opportunity to participate in equal competition. If we can create an environment of equal opportunity and equal competition, the masses will find it easier to tolerate the risks and losses that reform can bring, and since the masses will bear the same burdens, they can cooperate to solve their problems and make it through together.

No matter what the inflation rate is or whether there is double- or single-tracking for prices, it will be impossible to enhance the ability of the populace to tolerate inflation if we fail to equalize opportunity. Only by making this latter effort a priority and a major goal of reform can we win the true support of the masses and ensure that society will be able to cope with inflation.

The central obstacle to equalizing opportunity is the fact that officials monopolize resources, factors of production and power. If directly stripping officials of these monopolies is not possible, then we should adopt an indirect strategy, namely, encouraging the private economy, fully opening the economy up to nonofficials, and gradually creating markets for production factors through privatization.

Specifically, while continuing price reform, we should encourage the growth of privately run enterprises (including banks), auction off bankrupt state enterprises to private individuals, gradually dismantle the government agencies that control resources, let more and more nonofficials control enterprises and establish themselves in the economy, fully affirm and provide legal protection for private property, gradually formulate appropriate new policies, laws and regulations, and create a new, equitable economic order step by step.

#### **Commentary on Measures To Check Inflation** *40060063 Shanghai SHIJIE JINGJI DAOBAO in Chinese 5 Sep 88 p 14*

[Article by Yang Peixin [2799 1014 2450]: "Measures To Check Inflation"]

[Text] Thanks to the enterprise contract system which was initiated in 1987, enterprises now have the potential of accumulating funds for their own use and expanding reproduction on their own, and steel and iron and railway departments now have the capacity to take up major construction projects on their own. The enterprise contract system and the household production responsibility system in rural areas have become a tremendous motive power for accelerating the development of rural production, increasing the aggregate market supply, increasing economic returns, and ensuring a balance between financial and credit income and expenditure. The popularization of the local revenue contract system has aroused the enthusiasm of provinces and municipalities for increasing revenue and also strengthened their capacity to carry out major construction projects. Introducing the contract system to the banking system has made it possible to implement the departmental credit fund contract system, to instruct localities to increase regulatory activities, and to have a future in which not only enterprises' reasonable demands for fixed assets and working capital are satisfied and the continuous growth of the national economy is guaranteed, but the money supply is also under control and the responsibilities of macroeconomic regulation and control are assigned to every grassroots unit. This is like a ripe persimmon waiting to be picked. The golden time to check inflation in connection with price reform has come. Because of this, we should adopt the following measures:

**First**, we should switch from using inflation to unduly pursue fast economic growth to checking inflation,

ensuring a sustained and steady growth of the national economy, and seeking higher economic returns.

The most common mistake in China's socialist construction is putting undue emphasis on high speeds, including the "Great Leap Forward" and the "Westernization Leap Forward." Such "leap forwards," which went beyond the limits of funds, foreign exchange, and resource supply, often caused industrial and agricultural production to plummet and put the national economy on the verge of collapse. Then, we had to spend several years on readjustments. As the saying goes: "Haste makes waste."

After going back and forth for several decades, the Chinese people no longer rejoice over fast growth. What they want is actual economic returns. Fast growth obtained through inflation makes us look good on the surface but suffer in reality. It cannot not please the people.

In the first half of 1986, the industrial growth rate was 17 percent. The processing industry, including light, machine-building, and electronic industries, increased from 13.6 to 34 percent whereas energy and raw material industries increased only 10.1 percent, of which, nonferrous metals, oil, coal increased only 2 to 3.1 percent. The volume of rail freight increased 5.2 percent, which is 0.3:1 compared to industrial growth, and it increased only 0.9 percent in June. The coal industry has begun to "fix production quota according to the transport capacity." The growth rates of the energy, communications, and raw material industries are restricting the rate of industrial development. In the first half of 1988, the industrial growth of Guangdong Province was 31.1 percent, but now some enterprises are closed for 3 days and open for 4 days due to power and coal shortages and employees receive only 60 to 80 percent of their wages. Under these circumstances, increasing money supply cannot increase energy, raw material, and foreign exchange supply but only causes prices to skyrocket. The price we had to pay for the 17 percent industrial growth in the first half of 1988 is 14 percent inflation with poor economic returns. This is demonstrated by a 10.2 percent growth in revenue, of which, product tax and value-added tax increased 8 percent, income tax and profits increased 4.8 percent, industrial loss subsidy increased 13.1 percent, and cereal and edible-oil price increase subsidy increased 64 percent. Comrade Ziyang pointed out in November 1981 that we should "proceed from China's reality and find a new way to grow at a practical rate, achieve better economic returns, and give the people more actual benefits." This is what we need to do from now on.

**Second**, we should use the business contract and the local financial contract systems and the reform of investment system to wipe out the fiscal deficits of the central government.

Currently, excess money is supplied through two channels—the fiscal deficits of the central government and the expansion of bank credit, but its root cause is investment expansion. The proportion of central revenue has been reduced to about 50 percent, but it is still used to support major construction projects across the country. When fiscal deficits appear as a result of too much investment in the state plan, the state will resort to making overdrafts on banks or force specialized banks to buy bonds of major construction projects or enterprises. When there is not enough revenue to cover all projects in the state plan, the state will force the construction bank to allocate 10 to 20 billion yuan for such use. If the construction bank fails to comply due to its stagnant savings deposits, the state will make the people's bank issue more currency to cover capital construction loans. This is the root cause of inflation.

Under an enterprise contract, above-quota profits are reserved for the enterprise, and 60 percent of such profits go to the development fund. The Shoudu Iron and Steel Co., one of the enterprises which have implemented the contract system for some time, now has 1 billion yuan set aside for use in the expansion of reproduction each year. It is therefore possible to instruct, through the contract system, existing enterprises to expand social reproduction by investing their own money. At present, investments made with enterprises' own money have contributed to over half of the increase in the output value of iron and steel and petrochemical industries. And the investment returns of enterprises' own money are much higher than those of state funds because enterprises are more careful in using and budgeting their own money and therefore can get the most out of it. One yuan of the Shoudu Iron and Steel Co.'s own money is as good as 3 yuan whereas 1 yuan of state appropriation is only as good as 6 jiao. So it is possible for enterprises, which have the power to make their own investment decisions, to guarantee the completion of major construction projects under the strict implementation of the contract system. This can substantially reduce the amount of central investment.

For instance, after the implementation of the local financial contract system, Guangdong Province contracted a power construction project and built equipment that can increase Guangdong's generating capacity by 1 million kilowatts every year. Since the growth of local revenue is faster and since the localities have access to municipal and county revenues, state-run and township enterprises, enterprises of foreign, overseas Chinese, and Hong Kong and Macao capital, foreign investment, and the financial resources of the masses, energy and communications construction financed with local investment is bound to be faster. As the saying goes: a slow remedy cannot meet an urgency, after being swamped with work in "three forms of processings and compensation trade" from over 2,000 clients, the Baoan Enterprise of three capital sources in Guangdong Province could not wait for the central government to issue the "Eighth 5-year Plan" to make arrangements and used its

own money to build factories, roads, telecommunications, and power facilities with a floor space of 1.7 million square meters. We should further clarify that public facilities and infrastructure, including power, road, bridge, wharf, local railway, and telecommunications facilities, are local responsibilities. The allocation of central revenue for capital construction investment should maintain the level of last year's actual spending and remain unchanged for several years. Central planning departments and various commissions should use this money to guide the localities in expanding and doing a good job of major construction projects and at the same time shift the focus of work to coordinating and balancing so as to ensure that major construction projects are carried out at a faster pace.

By doing so, we can build a new investment system under which enterprises make most investment in the expansion of reproduction, local government organs are the main investors of public facilities, and local and central governments cooperate in inter-province and inter-city construction. The advantages of this system are as follows: 1) The investment burden of the central government may be reduced and fiscal deficits eliminated. 2) Investment returns may be increased substantially. 3) The funds of local enterprises, township enterprises, enterprises of three capital sources, individual industrial and commercial households, urban and rural residents, and foreign investors may be used to ensure that major construction projects are carried out at a faster speed.

**Third**, we should rely on the contract system of bank credit and practice "soft landing" to check credit expansion.

How do we check credit expansion and avoid "uniformity" which resulted in the negative growth of industrial production in February 1986?

In the past few years, we allowed credit to expand by practicing the big pot system in the credit department. When enterprises need money, they turn to local banks. When local specialized banks run out of money, they turn to their headquarters. When the headquarters of specialized banks run out of money, they turn to the headquarters of the people's bank. When the headquarters of the people's bank runs out of money, it issues currency. This is a credit fund supply system under which funds are supplied endlessly. In April 1985, the state decided to tighten the money supply and demanded that specialized banks pay back all loans renewed between January and April 1985 and excess loans issued during December 1984. Going too far is as bad as not going far enough. This move not only brought things to a halt but turned back the wheel of history. At the time, the state also resumed credit planning, set quotas for various loans issued by banks at all levels, and stipulated that each bank must limit its activities to its specialized field, leaving local banks very little room to maneuver. This supply tightening method killed the economy. In

February 1986, it was declared a failure and the credit fund supply system was reinstated. In the past 2 years, banks used fixed-asset loans to help various central departments and localities expand the scale of capital construction, and even out-of-plan capital construction projects were mostly financed with bank loans. After enterprises were built and put into operation, banks loaned them plenty of money to satisfy their needs for working capital. With such loans, which turned into tremendous purchasing power in the hands of enterprises, enterprises were able to beat other buyers by offering higher prices and engage in hoarding and cornering of raw materials. This kind of credit expansion became the motive power of inflation and price hikes.

Is there an alternative in addition to the two extreme methods of full credit supply and tightening? Is it possible to be able to control credit, prevent inflation, and avoid "uniformity" and decline in industrial production? Yes, there is such a road. That is to practice the local credit contract system.

Under the local credit contract system, the headquarters of the people's bank distributes funds, which it obtained through the issuance of excess currency, to the headquarters of specialized banks in the form of renewed loans. The headquarters of specialized banks will distribute such loans to its provincial and municipal branches which will then use them under the credit contract system. After receiving such renewed loans, provincial and municipal branches will be allowed to issue as much loan as the amount of deposits in their banks. This will force grassroots units of banks to intensify loan investigation, be careful in calculation and strict in budgeting, and get the best returns on loans. Provincial banks should be allowed to borrow from each other. This can encourage specialized banks to look down, absorb more deposits, reduce loans, and increase regulatory activities. Under this situation, specialized banks will voluntarily control the issue of capital construction loans, loan most of their money out for use as working capital, take the initiative in supporting the development of energy and raw material industries, restrict the issue of loans for the processing industry, extend loans to enterprises with good performance, and urge enterprises with poor performance to merge with enterprises that have better performance. This can strengthen the overall management of loans and will not hurt specialized banks in exercising decision-making power or using loans in a flexible manner to improve production. We may also encourage enterprises to raise funds among their employees so as to turn consumption funds into production funds. Meanwhile, banks at all levels should also implement the contract system of profit delivery and increase, under which excess profits are retained by banks to be used as additional credit funds and bad debt reserve funds or for purchasing computers, building additional offices, training cadres, and improving employees' welfare and wages. The wage bill should be linked to actual profits to arouse the enthusiasm of banks and employees. Under this system, banks and employees

will strive to obtain more deposits in order to issue more loans and earn more profits in order to spend more money. By doing so, banks will be invigorated, accumulate more funds, and increase returns on loans. Shenzhen and Shanghai have adopted the local credit contract system, and the Agricultural Bank has adopted the contract system of profit delivery and increase. During the 1981-83 period, Guangdong Province implemented the local credit contract system, and local banks only received several 100 million yuan of renewed loans from their headquarters, but they managed to meet local credit needs by soliciting deposits and issuing loans accordingly. We now need to popularize the credit contract system across the nation to check credit expansion and support the continuous growth of the economy.

**Fourth**, we should carry out moderate price readjustments in a planned and step-by-step manner to resolve price problems, reduce risks, and carry out price reform smoothly.

First, we need to clarify that prices must be readjusted continuously and not done in one move. For instance, oil extracting and coal mining conditions are changing constantly, and the prices of farm and sideline products are gradually going up. If we set their prices right for this year, they will need adjusting again in about 2 years. We cannot isolate price reform and demand that it be done once and for all within a given time period for it is not only impossible but also unnecessary. The growth rate of the national economy declined in such East European countries as Yugoslavia, Hungary, and Poland because they did not reform enterprises, erred in development strategies, and allowed inflation to ruin the expansion of social reproduction. But in our country, the national economy continues to increase because the household production contract system and the enterprise contract system have aroused farmers' and workers' enthusiasm. You are worrying too much if you think that the economic growth will decline as the reform deepens and that we'd better complete price reform in the next few years while the economic growth is still fast. It is unnecessary for us to rush to complete price reform in the next few years. On the contrary, conditions for price reform ripen as the enterprise contract system is perfected and enterprises' ability to adapt to the price increases of agricultural and industrial raw materials increases. We should take our time and carry out price reform in a well-planned manner. Second, we should realize that the overall annual inflation level must be controlled and that too much increase is not suitable because when inflation reaches two digits and interest rates fails to catch up, the public will feel safer about saving goods instead of money, thus jeopardizing the business of savings deposits. When the interest rates of savings deposits are over 10 percent and the interest rates of loans for grain, foreign trade, and industrial businesses cannot be raised due to the low profit rates of all enterprises, we cannot but turn to the opposite and impose ceilings on price increases. Judging from the current situation, an annual price increase of 3 to 5 percent is quite proper because it

will not unduly affect wages and the interest rates of savings deposits. We may limit the variety of commodities entitled to price increases each year and allow prices to be adjusted in different stages, not simultaneously nor in one move. In principle, the prices of industrial, mining, and agricultural raw materials should be raised if the processing industry has carried out technological transformation and increased its ability to conserve energy and raw materials and to adapt to higher prices so as to ensure that the prices of manufactured goods remain unchanged. Only by doing so can we really solve the problems caused by the low prices of industrial, mining, and agricultural raw materials. Otherwise, the continuous price increases of manufactured goods will force us into another cycle of price readjustment. Price reform should be carried out steadily, and prices should not be decontrolled all at once. "Currency control and price decontrol" is an oversimplified view because we do not meet all the requirements for price reform. There is a serious shortage of some commodities whereas a balance of supply and demand is not impossible for other commodities. Price decontrol for the former can only cause the prices to skyrocket. Therefore, for the time being, we should strengthen the price control of some commodities—namely forbid their price increases—and readjust the prices of other commodities. Price decontrol should be allowed only for those commodities whose supply and demand are almost balanced. We must be very careful with price reform, for a slight move in price reform will affect the interests of the state, enterprises, and the people as a whole. Price reform should be tailored to meet the needs of smoothly expanding social reproduction, stabilizing the people's life, and consolidating the enterprise contract system.

If we can do the above four tasks and carry out price reform after we stop inflation, we will get twice the result with half the effort. This will help us carry out our reforms successfully and gain the support of the people across the nation.

#### **Discussion of Guidance Thought on Economic Work**

*HK1611023188 Beijing JINGJI GUANLI  
in Chinese No 9, 1988 pp 4-5*

[Article by Wu Zongjiang 0702 1350 3068: "Maximizing Tax and Profit Delivery or Maximizing Value Increase?—A Discussion on the Guidance Thought on Economic Work"]

[Text] In the initial stage of socialism, in order to get rid of poverty and backwardness, it is necessary to take the development of the productive forces as the center of all work. Whether or not it is beneficial to developing the productive forces should be the starting point in our consideration of all problems and the basis for examining all work. After studying the theories of the initial stage of socialism, I feel that it is necessary to definitely establish this guideline which possesses a long-term significance.

However, in the course of the current deepened development of the reform of the economic structure and the enforcement of the many kinds of contracted management responsibility system, a series of contradictions has existed and continues between macroeconomy and microeconomy. A source for the generation of these contradictions is in reality two diagonally different guidance thoughts. One of them is the thought of maximizing the delivery of tax and profit. Holders of this thought frequently start simply from the angle of increasing the financial revenues of the state and onesidedly stress the interests of the state. Vis-a-vis the enterprises they principally examine the size of their delivery of profit and tax, always thinking of yearly increasing the tax amount and the kind of taxes, or adding to the levying of certain sinking funds, or shifting to the enterprises the burden of certain expenses, or using certain pretexts to seek contributions or to make special levies. Although they are aware of the great potentials existing among the enterprises, they do not seem to understand the basic principle of rearing hens to lay eggs or cows for the sake of milk. They make no efforts to make sound environments for the existence and development of the enterprises, and believe that by merely exerting pressure of administrative and mandatory tactics, they can readily obtain something from the enterprises. They frequently complain about the inefficient leadership or poor management of the enterprises. They are blind to the various difficulties confronting the enterprises and will not listen to the enterprises' pleas for help or for solutions to their difficulties. They even denounce short-term acts of the enterprises and are always on the alert against the possible eruption of errors damaging the interests of the state. They are unwilling to enforce the guideline of speedily writing off depreciation of assets, fearing that this might increase the production cost, reduce the profits, and thereby affect the deliveries to the state. They ignore the serious situation of the year-by-year lowering of the net value of the enterprises' fixed assets and they lack the sense of responsibility and urgency regarding the inability of realizing the renovation and transformation of the ageing capital investments of the state. They are not at all concerned with the problem of the long-term and serious shortage of the three main sinking funds (production development funds, reserve funds and funds for developing new products) of the enterprises or with the basic livelihood condition of the staff members and workers, namely, the problem of housing. In short, in the eyes of those controlled by the thought of maximizing the delivery of tax and profit, of the three kinds of benefits, namely, social benefits, enterprise's own benefits and social ecological benefits, only the enterprises' own benefits are important. They completely misinterpret the guideline of improving the economic benefits as the center and in the choice of whether an enterprise should boldly move forward or wisely reserve its energy, they would go for the former, thus reversing the cause-and-effect relationship between the two. Of the three interests, namely the state's interests, the enterprise's interests, and the interests of the individual staff member and worker, they

strongly emphasize the state's interest and put in opposition to each other the state growing wealthy and strong, the enterprise being vitalized, and the staff members and workers becoming well off. Between interests at the moment and long-term interests, they would choose only the former which they consider to be above everything else. Hence this is a sort of one-sided, erroneous and even dangerous guiding thought. In a word, they do not wish to see the enterprise establish a scientific guidance and examination system. Their main objective is that the enterprises deliver more profits and taxes to the state.

The other kind of guidance thinking is that of maximizing value increase. Holders of this line of thinking demand that the enterprises maximize the sum of their two sets of value, namely the existing value of their fixed assets and the value (profits) they can create each year. They uphold speeding up the technical transformation of the enterprise so that the plants each year can form a new set of fixed assets, so that the net value (or more scientifically speaking the present value) of the fixed assets of the enterprise can increase every year, and so that the plant's production capacity can yearly expand, thus ceaselessly expanding the old capital of the plants and of the state. They strongly demand that the enterprises seek three sets of value-increment and at the same pace, namely, first, value increase in assets, second, value increase in funds, and third, value increase in self-owned circulating funds, thereby ensuring, on the basis of the allround development of the productive forces of the enterprises, their gradually extricating themselves from daily relying on loans from banks and from the passive condition of their self-transformation funds and self-development funds being in a long-term vicious cycle and also ensuring a stable annual large-scale increase in their deliveries of profits and taxes. They are opposed to the unitary method of linking the enterprise's economic to the benefits with the gross volume of the salaries and wages of the staff members and workers and are even more opposed to the short-term behavior of dividing all the eating all. In their opinion both the upper and lower levels are guilty of short-term acts macroeconomically and microeconomically and they are opposed to both of these two short-term acts. They hope and demand that an enterprise's whole staff should consciously resort to various means to raise funds by themselves and first of all to ensure the completion of the enterprise's technical transformation plan and tasks. The above is the thought of maximizing value increment in the narrow sense.

The thought of maximizing value increase in the broad sense demands that an enterprise's maximum existing value equals (the staff contingent's best condition plus the equipment's best condition plus the products' best condition and plus the fund's best condition) multiplies the best scientific and technological condition and multiplies the enterprise's best management condition, that is, the various essential factors constituting the enterprise's productive forces are in the best condition.

In short what the persons firmly holding the thought of maximizing value increase try hard to probe into and seek for is the best concurrent attention given to social benefits, the enterprise's own benefits, and the social ecological benefits; it is the best concurrent attention given to the vanguard vigor and the rearguard vigor of the enterprise; it is the best concurrent attention to the state's interests, the enterprise's interests and the interests of the individual staff member or worker; and it is the best concurrent attention to the interests at the moment and long-term interests. The process of probing into and seeking for the best concurrent attention is the process of continuous reform, the process of continuously perfecting the production relations, and the process of the dialectical unification of the relations on various sides. Hence, the thought of maximizing value increase is a guidance thinking which is all-round, scientific and correct. In a word, they demand the enterprise set up a scientific target assessment system which takes as its nucleus the three value increments progressing at the same pace. Or, we may say they firmly believe that in assessing an enterprise's management results, we should take note not only of whether its economic benefits for the year are high or low but also of the increase or decrease in the existing value of its fixed assets and more importantly of the increase or decrease of the existing value in the broad sense.

Summing up the above brief description, maximizing the delivery of profit and maximizing value increase are two basically opposing guidance thoughts, and their basic attitude toward enterprises diverge. One may be likened to killing the hen to get the eggs and the other, to rearing the hen to lay eggs; one is drying the pond to catch fish and the other is letting water into the pond to grow more fishes; one only takes and does not give while the other gives first before taking; one in reality destroys the enterprise's productive forces while the other actively develops the enterprise's productive forces; and one falsely styles itself as representing and protecting the state's interests while the other is truly representing and protecting the state's interests.

At present there are numerous rules and regulations purposing to macroeconomically examining and controlling the enterprises but their contents reflect on many sides the one-sided view of maximizing the delivery of taxes and profits. The guidance of the thought on maximizing the delivery of taxes and profits, if made on the macroeconomy, will inevitably generate short-term policies and policies that cannot be coordinated with each other, and if made on the microeconomy, will inevitably generate the enterprises' short-term acts. In fact, short-term policy and policies that cannot be coordinated with each other are the catalysts of the short-term acts of the enterprises and they themselves are in reality a sort of short-term acts. Indeed they are short-term acts of the kind that produce even larger effects and more serious harm. We should clearly and more seriously notice this erroneous thinking is currently threatening the success of the various forms of contracting, particularly threatening the success of the "two-guarantees and one-link" scheme.

Contracting requires the existence of stable external conditions, but the ceaseless and even extremely irrational burdens placed on the enterprises are drastically changing the external conditions at the time of the enterprises signing the agreement on contracting.

In learning from and implementing the spirit of the 13th CPC National Congress, we must do the utmost to improve and reform the production relations and the upper structure and particularly must consciously change certain erroneous ideas in our minds, so as to promote the all-round development of the productive forces. We must criticize the bias of maximizing the delivery of taxes and profits and definitely establish the thought of maximizing value increase.

**Personal Income Regulatory Structure**  
*HK2810040388 Beijing JINGJI GUANLI*  
*in Chinese No 8, 1988 pp 14-17*

[Article by Hou Yunchun 0186 7189 2504: "Quickly Establish a Sound Personal Income Regulatory Structure"]

[Text] Recently people have constantly discussed the questions of justice and efficiency. Basically speaking, justice and efficiency are united. The distribution of justice can to a maximum degree raise efficiency. However, contradiction still exists between justice and efficiency. Justice demands that between constituent members of society there is no excessive difference in their actual income. On the other hand, efficiency demands widening the discrepancy in income so as to maintain a sufficiently strong stimulation. How to give due consideration to both justice and efficiency has become a world problem.

Since enforcing reform and opening to the outside world in our country, we have initially broken the state of enterprises eating from the same big pot at the state's expense and of staff members and workers' eating from the same big pot at the enterprise's expense. Different kinds of distribution forms centered mainly on distribution according to work have been initially established and great changes have been made in the distribution pattern. This has created the precondition for solving the contradiction between justice and equality. But in reality, in income distribution of the constituent members of society two prominent contradictions still exist: On the one hand, within the public ownership system, and within the same industry, trade or enterprise, the differences between the income of the staff members and workers have not yet been widened and the stimulating effect has not been strong enough; on the other hand, between different enterprises, industries and trades, and different ownership systems, the incomes of the constituent members of society have differed greatly one from the other. This has produced enormous effects on the enthusiasm of many staff members and workers, particularly those in enterprises owned by all the people and the public servants of the state. Hence, how to pay equal

attention to justice and efficiency, and solve the contradictions between them, as well as have them organically joined together and united has become an important problem in the reform and development and even in social stability. And the road to solving this problem lies in setting up, between the normal income and actual income of the social constituent members a buffer and regulatory equipment or device, that is, establishing a sound personal income regulating structure which is suited to the demands of developing a socialist planned commodity economy.

I

A personal income regulatory structure refers to an organic structure which, using the personal income tax as the principal lever, keeps in mutual liaison and mutual restriction and effectively regulates the incomes of all the constituent members of society (including income from labor and income from non labor). It should embody three basic contents: 1. Mutually coordinating and mutually supplementing forms of tax, tax rates such as those of personal income tax, property tax, inheritance tax, gift tax, and other corresponding tax rates; a flexible tax reduction and tax exemption policy and stern rules and regulations governing fines for tax evasion and non payment of taxes, as for the sake of encouraging individual savings and accumulations, exemption of personal income tax on savings and interest income, and so forth; 3. stringent rules on reporting, registration and statistics of personal income and tax collection, supervision and examination systems. The personal income regulatory structure protects the low-income people, limits high-income and is generally beneficial to manifesting the principle of justice. At the same time, since this is post-affairs regulation of personal income, and places no hard limits on the "ceiling" of boundary-line incomes, it can produce no passive effects on the social constituents' enthusiasm for engaging in various kinds of production and business activities. On the contrary, it can prevent the bad effects of laziness and lavish spending on the part of those who have found it easy to earn a high income.

Rigidly speaking, at present in our country regulation of personal income has not yet formed an integrated system and serious defects are found in the existing regulatory tactics. First, its coverage is too small. The starting point of our country's existing personal income regulation tax is too high. Very few people are up to the tax-paying standard of an income of 400 yuan and above. Second, computation of one personal income is not scientific. For example, on the irregular income of one lump sum payment or receipt of labor earnings extending over a rather long period or even many years, the existing method calls for collection of the income tax on each and every payment. This is not exactly rational. Third, regarding the personal income of individual bodies and production development funds in privately-run business units, no strict demarcation is made between them. This

cannot manifest not only the role of encouraging accumulations and savings but also the role of restricting high consumption. Fourth, in the collection of the bonus tax and the salary and wage regulatory tax from state-owned enterprises and collective enterprises, the main body subjected to the tax is the enterprise and not the staff members and workers. This not only cannot reach the objective of controlling the granting of bonuses but also easily encroaches on the production and development funds of the enterprise. Fifth, on the reporting, registration and statistics of personal income and the collection of personal income tax, the work done has been extremely weak. Phenomena of tax evasion and various forms of corruption are very frequent. Sixth, the forms of tax are unitary, there being no coordinating taxes. Regarding the gift and endowment tax and the inheritance tax, coordinating tax kinds are still a blank. Even though collection of the personal income tax is rigidly enforced, there is no way to avoid the phenomena of the legal evasion of taxes on personal income and the transfer of private properties.

It can be seen from the foregoing that our country's existing regulatory structure of personal income is extremely imperfect. Basically there seems to be no system at all, and if there is one it could hardly perform its functions. No special harm was done in the past under the old structure of egalitarianism and everybody eating from the same big pot. But following the gradual deepening of the reform and changes in the distribution pattern, it appears exceedingly urgent that the personal income regulatory structure be quickly perfected.

## II

A sound and integrated personal income regulatory structure with the personal income tax as the principal body is the most important measure of many countries in regulating the income of the constituent members of their societies. Seen from the current conditions in our country, perfection of the personal income regulatory structure carries the following important meanings:

First, it is beneficial to manifesting the socialist principle of justice in distribution and fully arouses the enthusiasm of the entire body of social constituents. Due to irrational prices, an imperfect tax collection system, an unequal competition and many other factors at present in our country, under the conditions of failing to completely wreck the old egalitarian practice of everybody eating from the same big pot, the question of excessive differences in income has made its appearance. With a small number of people enjoying high income, a malicious example has been set in society, attracting other social constituent members to follow and compete with each other. This not only has caused a steep inflation of the consumption fund but also has aggravated the feelings of injustice and discontent among the constituent members of society. This has given rise to the abnormal psychology of universally feeling ill-treated and has seriously affected people's enthusiasm. Perfecting the

personal income regulatory structure and making due with the regulation of excessively high personal income will help change this situation.

It needs to be pointed out here that regarding the public's striving for top honors and their discontented attitude, they cannot be categorically blamed for the "red eye disease," or extreme jealousy. It must be admitted that the excessively high income of a portion of the people not only is not acceptable by the vast masses but also counters the socialist principle of just distribution. According to the Marxist theory of labor value, value is created by the labor of workers. Social wealth, by means of market transactions, is concentrated in enterprises which have managed and operated well in and is in the hands of certain individuals. The great proportion, aside from the portion serving as compensation for "more work more pay," should continue to be used on production and operation, so that even more wealth can be created for society and by no means should it be wholly spent on individual consumption. This principle should be ensured to be implemented by means of collection of the personal income tax and using the legal form. However, at present in certain individual bodies and privately-run business units, not only is there no manifestation of this principle but also the necessary deduction by society is not made. Obviously this is highly irrational. According to certain available information, in foreign countries the highest tax rate on personal income is far higher than that in our country. In the United Kingdom, the highest tax rate on salaries and wages and other income from labor at one time reached 83 percent and the highest tax rate on non labor income such as interest and share interest was once as high as 98 percent. In our country, the highest rate on citizens' personal income regulatory tax is only 60 percent, not to mention the many loopholes in the actual collection work.

Collecting a highly cumulative personal income tax from those people earning a high income is beneficial to just distribution. There is no question about that. But will this not adversely affect the enthusiasm for production and operation on the part of those earning a high income and cause their production and business to wither? In reality, if matters are adequately handled, such a condition will not happen. In Shanghai Municipality, a large-scale investigation was once made. The results showed: in the early stage of the operation, in the case of individual households, for the sake of recouping their capital and making more profits, more of them would put in more investment while few would spend the money on living and consumption; after having earned definite profits, more of them would on the one hand earn money and at the same time enjoy life; in the case of individual households who had been in operation for sometime and earned plentiful profits, a relatively large number of them would spend lavishly. Seen from the outlay side of the profit earnings of the individual households, only 20 percent were spent on expanded reproduction. It should be said that the appearance of such a situation was largely caused by the imperfection

of the personal income regulatory system and by too much money being earned and earned too easily. As far as these individual households and private business units are concerned, perfecting the personal income regulatory system should include the following: First, the accumulation funds and consumption funds should be separated, the portion of the funds for increased investments and expanded reproduction should receive the benefit of exemption or reduction of the personal income tax while the portion of funds used on individual spending and consumption should be subjected to a cumulative personal income tax at a high rate, such that their actual income would be about equivalent to, or only slightly higher than, the income of other social constituent members in general. Through this, production and operation will be protected, exorbitant high income will be restricted, and the individual operators will revert to the initial stage of operation, that is, they will have the initiative or inclination to maintain a strong desire to invest.

Second, it is beneficial to encourage accumulations, regulate consumption, stabilize commodity prices and relieve the pressure of inflation of consumption funds. The rise in commodity prices is currently an outstanding problem in the national economy. Despite the many measures taken by the state and local governments at various levels, commodity prices can still not be stabilized. The basic cause is due to inflation in consumption funds in recent years. Inflation in consumption funds exerts two kinds of pressure on commodity prices. One is the pressure to widen the contradiction between supply and demand and the other is the pressure to push the rise of the cost of production. Seen from the general trend, in recent years inflation of consumption funds has not yet spent its full force in its effects on commodity prices. For some considerable time, the rise in commodity prices is likely to be sustained. Against this, an ineffective remedy such as proverbially "trying to stop water from boiling by scooping it up and pouring it back" is perhaps needed. But to basically solve the problem it is still necessary to take a drastic measure such as attempting to solve the problem of consumption fund inflation. Recalling what we have passed through during the past years, the lessons that we have learned from the problem of the consumption fund have been penetrating. In recent years, we have literally tried the road of "filling up the pit" by the method of "leaving it low but letting rise spirally." But the "pit" remains unfilled. Despite that in general we recognized the extreme seriousness of inflation in the consumption fund, in concrete acts we adopted many measures prompting the continued inflation of the consumption fund. The cause was that we tried to "fill the pit" without "removing the pinnacle." Each industry and trade went its own way and took the small number of people with high earnings as a reference, and everybody heightened the desire for high income which, in short, was in all respects unrealistic. In order to basically solve the problems of unjust distribution and inflation of the consumption fund, we should consider taking a new line of thought. This is the road of filling the

pit on the one hand, removing the pinnacle on the other but taking the latter as the major task. Perfecting the personal income regulatory structure is undoubtedly an important measure to achieve this objective.

Third, it is beneficial to overcome the enterprises indulgence in short-term acts and to expand reproduction in the enterprise. Among the enterprises, the general trend is indulging in such short-term acts as giving priority to bonus-granting and welfare work before taking up expanded reproduction. One of the important causes for this is that the principal body, or object, for the salary and wages regulation tax and taxes on bonuses is the enterprise and not the individual staff member or worker. How much tax paid by the enterprise has no direct connection with the actual income of the staff members and workers. Meanwhile under the pressure of a small number of social constituents in nearby plants and stores that enjoy a high income and the inflation of commodity prices, the managers of enterprises face an enormous force of compulsion from their staff members and workers demanding the granting of larger bonuses, while regarding the stamina for the enterprise's development, few people will consider. If a change is made to collect the income tax from the individual person and is supplemented by levying an adequate collective consumption tax, then despite more and larger bonuses being paid by the enterprise there will be only a limited increase in the actual income of the staff members and workers in comparison with other social constituent members. If funds employed in expanded reproduction are exempted from taxation, then this will be to the long-term interests of the staff workers and members. Thinking of their long-term interests, the staff members and workers themselves will of their own accord employ this portion of funds on expanding the enterprise's reproduction.

### III

According to the current actual conditions in our country, in the next several years the principal jobs to be done in establishing and perfecting the personal income regulatory structure should comprise the following: Enforce a personal income tax system which has a low collection starting point and is highly cumulative, speedily setting up such coordinating tax forms as property tax and so forth, and strengthening the all-round registration of personal incomes and tax collection work.

First, a personal income tax with a low starting collection point high cumulative nature should be enforced, and the existing personal income regulatory tax, salaries and wages, regulatory and bonus tax should be reformed. There should be four major points: 1. Unify the tax collection principal body; abolish the salary and wage regulatory tax and bonus tax collected from the enterprises; and categorize the individuals possessing the tax paying obligation; 2. Lower the collection starting point of the personal income tax, making the tax collection part reach 80 percent or thereabout, and also make the

great majority of citizens earn an income directly shouldering the obligation of paying taxes, thus helping invigorate the citizens' understanding in this connection. 3. Reduce the grade differences in the personal income tax rate, hiking the tax rates and putting the highest tax rate at 80 percent and above. 4. Change the tax collection timing. Income of an ordinary nature should be taxed monthly while income of not an ordinary nature should be taxed yearly.

Second, starting as soon as possible, collect such supplementary and coordinating tax categories as property tax, gift and endowment tax, consumption tax and so forth. At the same time, in order to prevent such phenomena as certain units evading taxes by turning a portion of the personal income into collective welfare funds and using them again on the individual staff members and workers and also for the purposes of encouraging the enterprises to devote more funds to accumulate and continuously expanding reproduction, consideration should be given to collecting from the enterprises a collective consumption tax on the enterprise's nonproductive construction and collective fringe benefits.

Third, institute a rigid system for reporting, registering, and checking personal incomes, greatly strengthen the tax collection and administrative work, and heavily punish acts of tax evasion and non payment of taxes. The institution of a rigid system of reporting, registering and examining personal incomes so as to truly reflect the conditions of the citizens' incomes forms the foundation and basis for the state to carry out a rational and effective regulation of the incomes of the constituent members of society and is also an important measure for society to supervise the receipts and expenses of its constituent members and to prevent corruption, bribing and appropriating various kinds of irrational receipts. If necessary, we should publicly reveal the conditions of income, expenses and payment of taxes of the officials holding important and responsible posts, and entrepreneurs and of those earning high income. This will help in strengthening social supervision. In strengthening the personal income collection and administration work, it is necessary first of all to strengthen the self-construction of the tax departments at various levels and strengthen the control and supervision over them. It is also necessary to fill, supplement and strengthen the strength in tax collection and administration; improve and raise the political quality, business quality and concept of law execution and law abidance of the taxation personnel; and earnestly change the present unsuitable conditions of the taxation force that is weak in strength, low in quality and generally not adapted to the demands of developing the commodity economy. At the start of enforcing the collection of the personal income tax, property tax, gift and endowment tax, and inheritance tax, those evading taxes and found guilty of non-payment of the taxes should be severely punished so as to make a good start in the collection and administration work of the personal income tax after the reform. The fines should be heavier than the ordinary fines against

those who have cheated in reporting or made untrue reports. In serious cases such as resisting the payment of taxes, the culprits should be criminally prosecuted.

As for taxation departments and those responsible for tax collection work being careless in their duties and failing to conduct tax collection, aside from requiring that the collections be duly drafted, the responsibilities of those concerned for the errors should be investigated; those found guilty of willfully breaching the law or doing acts for retaliation purposes should be subjected to severe punishment. Citizens who have reported on other people's tax evasion acts or on the law-breaking activities of the tax collectors should be given suitable rewards proportionate to the amounts of irregularities reported; while in the case of those knowing of the irregularities but failing to report them, appropriate punishment should be accorded them.

Establishing and perfecting the personal income regulatory structure is a delicate and complex task. Not only does it have a large amount of work itself but it also must work in close cooperation with other parts of reform, and cannot carry out its work aloof and without regard for others. In particular, it must be in close cooperation with the reform of the distribution system and readjustment of the salaries and wages of the staff members and workers, coinciding with them at the same pace. Lowering the starting point in collection of the income tax and raising the cumulative rate should be carried out in such a way that the great majority of tax payers will not suffer from a post-tax reduction in income; on the contrary, if possible, their income should be increased. Hence, this type of reform cannot be done in haste but must be attended to with great care and due consideration, and must be subjected to various factors including the economic ability to bear the psychological response and so forth on the part of the state, society and the public. Nevertheless, this reform must be made. The earlier, the greater the initiative; if dragged on too long, it will become increasingly passive.

#### **Renewable Contract Management System Seen Effective**

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[Article by Wang Hai Qiang 3769 3189 1730, Xue Zhenyu 5641 6966 1342, and Jiang Ziguang 5592 1311 0342: "Renewable Contracted Management Is an Effective Way To Prevent Short-Term Enterprise Behavior"]

[Text]

I

Pushing the contracted management responsibility system in an all-round way promotes separation of the two powers, arouses the activism of the enterprises' managers and producers, promotes deepening of enterprise

internal reform and perfection of the operation mechanism, and clearly elevates the economic benefits. However, since the contracting of enterprises a series of problems have appeared. Among these the most outstanding is the short-term behavior of the enterprises.

The short-term behavior of the enterprises is principally manifested in the following: First, unwillingness to invest funds in projects which take a relatively long time to produce any effects. In technical transformation project investments, main consideration is given to whether or not they can produce effects within the period of the contract; if not, then no investment or a lesser investment will be made. Second, rushing the use of equipment and the labor force by working overtime or adding to the working hours. In some of the enterprises the equipment is overworked and to save expenses, maintenance and upkeep periods for the equipment are delayed or overdue, parts are not changed at the scheduled time, and the wear and tear and ageing of the equipment are quickened. Third, a drop in enthusiasm for intellectual investment. On the one hand, the poor quality of the staff is an outstanding problem while on the other the enterprise, with its economic interests in mind, does not want to spend money on staff education. Particularly since regular training takes time and cannot produce effects during the period of the contract, the enterprise is all the more unwilling to spend money on it. Fourth, inflation and loss of control of the consumption fund. Certain enterprises use a large portion of the newly increased profits to grant bonuses and fringe benefits to the staff. They are interested in doing something that can be seen, can be taken away, and in generally giving the staff real benefits. Thus they overlook investing funds in capital construction and as a result, enterprise development loses the stamina which it needs.

The basic cause of the short-term behavior in enterprises does not lie in contracted management itself but because the contracting form has not yet attained perfection in certain aspects.

First, following contracting the enterprise's interest motive is dramatically strengthened. In the initial stage of socialism there exist the different interests of the state, the collective, and the individual. Contracted management has the purpose of giving recognition to the individual's interests and joint together the individual's interests with those of the collective and the state to arouse the enthusiasm of the people in production and management activities. To the contracting entrepreneur, fulfillment of the contracted target can procure for him not only relatively high material interests but also a corresponding reputation and social status. On the other hand he can suffer losses economically and bears the risk to reputation and status. This forces the contractor to take fulfillment of the short-term targets as the most important task.

Second, the competition mechanism draws people into contracting and creates the conditions for talented people to show themselves. It breaks the system whereby the

cadres enjoyed life-long tenure, and brings pressure to bear on enterprise cadres, forcing them to resort to ways and means of putting production and management in good shape. At present the contracting period is only three years, on expiration of which whether or not the contract can be renewed is highly problematical. Besides, cases have frequently occurred of the wishes of higher officials interfering in decisions by the contracting entrepreneur. The social and psychological effects aggravate the entrepreneur's feeling of possible risks and danger and further strengthen his motive to seek the maximum individual interests and the best performance record during the contracted period. This leads certain enterprise cadres into considering only being "red in the current year" and "red during the term of office."

Third, the existing contracted management system places the emphasis on arousing the activism or enthusiasm of the entrepreneur and gives heavy rewards to entrepreneurs who have fulfilled their contracted targets. Since the power to determine the form of distribution of earnings was given to the enterprise, the extent of the increase in entrepreneur's income has grown larger. This greatly widens the disparity between the income of the producers and that of the entrepreneur and aggravates the contradiction. In order to solve this dilemma, the entrepreneur must resort to ways and means to increase the income level of staff members and workers, and can even go to the extent of granting bonuses at the expense of production development funds, thus pushing the enterprise in the direction of increasing consumption funds.

The short-term behavior of enterprises is manifested differently in different enterprises, but its social effects [she hui hou guo 4357 2585 0683 2654] are the same: First, "gladness first but sorrow afterwards." Within a short time production develops and profits are increased but the enterprise's development stamina is not sufficient. This causes the economy to lack the strength for long-term development and damages the interests of the state. Second, it causes hidden financial trouble. Due to the relatively large increase in financial revenue within a short period the expenditure scale is easily widened, and by the time the short-term behavior damage occurs, a natural imbalance will result in financial revenues and expenditures. Third, it leads the enterprise in to committing other illegal acts like violating the state's financial and economic disciplines.

As far as preventing the short-term behavior of enterprises, the parties concerned have made active studies thereon. For example, it has been suggested including in the contents of the contract provisions for value increase in assets, for technical transformation, and for progress in technology. In addition, external supervision is to be strengthened. All these measures can play an active role in preventing the enterprises' short-term behavior. However, they emphasize using external pressure to supervise and control the short-term behavior of the enterprises

but cannot generate an innate motive force in the enterprises to personally overcome short-term behaviour. Hence, they cannot effectively prevent short-term behavior. This forces us to look for an effective remedial measure as quickly possible and to create and develop a mechanism that can cause enterprises to counter their short-term behavior by themselves. It is our belief that using the measure of renewable contracting can not only fully display the role of contracted management but can also overcome certain inadequacies in the contracted management responsibility system, thus attaining the objective of rationalizing the management behavior in enterprises.

## II

The basic proposition for renewable contracting is: The contracted enterprises, after having been examined and found to be up to a certain fixed standard, are put on the list of enterprises for renewable contracting. Regarding these enterprises Party A signing the original agreement will bring up the contents and targets for contracting during the renewable period. After the contractor's acceptance of these contents and targets, the contracting period will be successively extended to a fixed date and the corresponding agreement for it will be signed. The specific method and procedure should be as follows:

1. Fixing the conditions for renewing the contract. The conditions for renewing the contract should follow the principle of taking the strong points and avoiding the weak points on the basis of a summation of the existing contracted management responsibility system and should include the following five points: 1) The enterprises already enforcing the contracted management responsibility system have fulfilled or overfulfilled the relevant contracted targets after the contract has been enforced for over one year (preferably two years); 2) The enterprise concerned has formulated a long-term development plan (five years and over) and a plan for its enforcement in separate stages and has duly organized the actual practices, the management ability of the entrepreneur has won social recognition and earned the support and faith of the great majority of staff members and workers. 4) The enterprise has carried out leadership structure reform and smoothed the relationship between the three parties of the party, the government, and the workers, and the leadership team itself is of one mind, mutually cooperative, and firmly united; 5) Simultaneous with watching the enterprise's own economic benefits, the enterprise has paid due attention to the social benefits [she hui xiao yi 4357 2585 2400 4135], observed and carried out the state's laws and statutes, and executed its production and management activities strictly according to the legal provisions. In actual practice we should, in accordance with the special features of the localities, industries, or trades, endeavor to accomplish causing these conditions to become fixed both qualitatively and quantitatively.

2. Checking with the stipulated standards and determining the enterprises for renewable contracting. On the basis of having made an all-round assessment by checking and examining the contracted enterprises, a further check and assessment should be made in accordance with the above-mentioned conditions. Those enterprises found to be up to the standard are put on the list for renewable contracting.

3. The party with the enterprise ownership right should organize relevant specialists to determine the contents and specific targets of the renewable contracting based on the actual level accomplished by the enterprise after contracting, and on actual reference to the advanced level in the same industry and trade. The views of the enterprise concerned should be sought on the contents and targets of the contracting, but not on the basis of party-to-party talks of a consultative or negotiable nature. Once the targets are determined they should be treated as terms specified in public tenders and, as a rule, cannot be easily changed.

4. The incumbent or existing contractor chooses whether or not to accept the contents and targets of the contracting. If accepted, then the signing of the contract may proceed and the renewable contracting is formally in force. If rejected, then there will be no renewable contracting. New tenders will be invited upon expiry of the contracted period, at which time the incumbent contractor can still participate in the tender competition.

Renewable contracting is not simply extending the contracting period and also differs from the previous life-long tenure of cadres. The traditional cadre system structure has the special feature that it is easy to climb upward but difficult to climb downward. Even though the person concerned has violated laws and discipline and turned the enterprise into a terrible mess, the leadership merely changes position to another resting place without damage to salary or official rank. The artful ones may even get a promotion. Renewable contracting calls for a comprehensive pre-estimate made on the basis of contracted management enterprise's own economic and social benefits [she hui xiao yi 4357 2585 2400 4135] and its short- and long-term benefits. If found suitable, renewal will be made; if not, then renewal is definitely out of place. Whether or not the entrepreneur's tenure of office can be extended is determined by the enterprise's business conditions after contracting, and by the contractor's behavior or actions—whether or not they are beneficial to the enterprise's long-term development and to macroeconomic demands. Whether or not the entrepreneur possesses an opening-up and progressive spirit, and a willingness to accept and organize the realization of the more scientific and rational contracting targets also counts. On the basis of the existing contracted management responsibility system renewable contracting, through establishing many layers of struggle targets, calls for the organizing of lateral competition, pushing the enterprise entrepreneur toward making sustained vertical efforts, and guiding enterprise

behavior toward the long-term. In the course of implementation the following points should be noted: 1) Hardening conditions for renewable contracting and excluding those not up to the stipulated standard. 2) Making the targets for renewable contracting absolutely scientific and rational. 3) Fixing the renewable contracting period on the basis of the actual conditions in the specific enterprise, two to three years being generally suitable. If the extended period is too long, changes in the internal and external conditions of the contracted management cannot be estimated in advance and targets may be found to be unscientific or irrational. If the period is too short then the encouragement factor cannot play its role. However, if certain enterprises in carrying out renewable contracting have demonstrated extremely obvious economic and social benefits [she hui xiao yi 4357 2585 2400 4135] then the renewal can be repeated again and again. 4) In enforcing renewable contracting, a suitable form to carry out the annual assessment of the contracted enterprises must be adopted. Results of surveys of public opinion should form only one of the criteria for relevant departments in determining whether or not an enterprise should have renewable contracting and the results should not be publicized among the enterprises. 5) Enterprises enforcing renewable contracting should adequately improve their system whereby the plant heads are responsible for the targets during their tenure of office.

### III

Enforcement of renewable contracting may generate the following positive functions:

1. So far as the enterprise's entrepreneur is concerned, it increases the transparency of his term of office and creates conditions for fixing and realizing long-term strategic targets for production and management. Contracted management, particularly contracting by calling for tenders, breaks the cadre life-long tenure system and give the enterprise leadership the feeling of urgency and risk. The presence of a feeling of risk and the lack of a definite feeling of stability constitutes one of the main causes leading to enterprises engaging in short-term actions. Besides, the existing contracting period is generally for three years but the actual time the contractor can engage in his work is frequently less than three years. At the same time, in the case of relatively large technical projects, the time period from studying and discussing the projects to their completion and going into production generally last about 2 years. During the contracting period, because no benefits or only small benefits can accrue greatly reduces the chances of technically transforming the project. However, by means of renewable contracting, the term of tenure of those entrepreneurs with clear accomplishments in actual practice can have the high transparent character of definitely being extended. This will lead the entrepreneur to consider the production and management strategy of the enterprise from the long-term development angle. Entrepreneurs hope that during the contracting period they can achieve

fairly big accomplishments which are recognized by society. The possibility of an enterprise being placed on the list of those qualified for renewable contracting is itself a testimony and acknowledgement of the entrepreneur's management ability and results. The result of the interplay of this power of attraction and feeling of risk regarding continuity of tenure upon expiry forms a motive force causing the entrepreneur to strive hard for advancement, to go after the targets, and to seek renewable contracting. Obviously, enforcing renewable contracting will play the enviable role of making the enterprises self-restraining in their short-term behavior. At the same time it can encourage the enterprise to consciously overcome its innate psychology for short-term actions, and thereby overcome the problem of short-term behavior which is already appearing in a portion of the enterprises. Specifically speaking, due to the adequate extension of the contracting period the enterprises can: Strengthen their enthusiasm in investing in technical transformation; resort to ways and means of shortening the period required for technical transformation; strive for the best results in technical transformation during the contracting period; strengthen equipment management and actively engage in easing problems of irregular abrasion and ageing of equipment; and looking forward and behind to rationally consider increases in the income of staff members and workers using abundance to replace inadequacy and summing up the overall situation. At the same time, due to the rise in enthusiasm for making productive investments and investment of funds being shifted to the realm of construction and production, consumption fund inflation can be effectively controlled, more investments can be made to increase and improve the intellect, and the training of talented personnel can be speeded up. This will meeting the demand of modernized enterprises for persons of talent, and so on and so forth.

2. Enforcing renewal contracting can provide an effective measure for the government to guide the enterprises' conduct. In the course of the continuous deepening of the reform, the internal and external conditions of enterprise management constantly change. This brings contracted management the following difficult problem: if the contracting period is short, the enterprise can easily generate short-term behavior; if the contracting period is long, changes in the enterprise's management conditions cannot be properly estimated in advance and it is not easy to make the contracted targets scientific and rational. Employment of the renewable contracting form can overcome the inadequacies of these two sides. On the one hand, following a period of contracted management the enterprise's potential can be more clearly manifested, providing a more reliable basis for determining the targets for renewable contracting. On the other hand it will be possible to sum up the experiences in contracted management and correspondingly improve the contents of the contract and agreement. By using the conditional successive renewal of the contracting period the objective of preventing the enterprises' short-term behavior can be achieved.

**Article Views Contract Markets**  
*HK1611052388 Beijing JINGJI GUANLI*  
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[Article by Zhang Bo 1728 3134 and Cao Jinbiao 2580 6855 1753: "Foster a Contract Market To Perfect the Enterprise Contract System"]

[Text] The contract system is suitable to China's actual situation in its present reform of enterprises. It points out the direction of separation of two rights in our reforms, focuses on strengthening the enterprise's right of operation and strengthens the status of enterprises in terms of making decisions. At the same time, it aims at making the operation subject—entrepreneurs—more prominent. Through their contractual relations with the parties contracting out their projects, they are, to a certain extent, representatives of legal persons and undertake responsibilities, rights, and duties at the same time. Based on the basic thinking about reform of the system, and in order to achieve the above mentioned goals, we must form an organized and systematic contract market so as to encourage the growth of entrepreneurs and form a "two-tier" management system of enterprise cadres, which is very important. For this reason, we must work hard and complete substantial achievements in the following areas:

**I. To Make It a System Where Contracts Are Made Through Competition**

Facts have shown that competition among contractors is an effective way to show the potential of the contract system itself. First, by means of contracting through competition, as well as pledges against risks, it makes business operators eliminate the "same big pot" of "having their shares of harvest despite floods and drought." It helps them win the right of operation through competition by depending on their capability and management skills, and undertake risks by means of pledging their personal properties as security. This has fundamentally put an end to the past practice of "running enterprises by officials," in which one got the right of operation through his administrative seniority and rank. This system will gradually give rise to a number of entrepreneurs whose career is based on enterprises. Their social status and career success is determined by their actual results of the enterprise operation. At the same time, the competition mechanism of "the survival of the fittest" applied to the office of operator has eliminated the traditional system of eating from "the same big pot" in enterprises' cadre system, while establishing a new system in which enterprise cadres may be promoted or demoted. Second, the authority and obligations of a contractor becomes clear after the conclusion of a contract through competition and pledging against risks. Their key role in enterprises is therefore established, and it develops a situation in which there is "no more external intervention or shirking of responsibility within enterprises."

Therefore, when further developing and perfecting the contract system, we should unswervingly uphold the practice of contracting through competition. In other words, the key to perfect the contract system rests with the system for concluding contracts through competition, including issues about how to make it a system for invitation for contractors, assessment and supervision, rather than the method of concluding contracts.

**First, Organization of Invitation for Contractors**

Presently, there are two problems concerning the invitation of contracts. First, under the current contract system, the party that invites contractors is mainly formed by competent government departments. Moreover, many contractors are appointed by them, so that they can never be the genuine entrepreneurs. Instead, they are simply "officials-managers." This is unfavorable to introducing the competition mechanism into the contractual operation or the formation of an operators' market. Second, the party that invites tenders for bidding a contract is also mainly exclusively "handled" by the competent departments, so that several disadvantages are exposed: First, it is a very complicated relationship between the competent department and the cadres and workers of its subordinate enterprises are different because of their background. Hence, it is difficult to have a fair competition in bidding. In some cases, the bidding was even controlled by the party inviting the tenders. Second, it may restrict the socialization of the invitation for tenders through competition. Particularly, after the system of contracting by legal persons is popularized, the competent departments proceed from their own interests and tend to prevent enterprises under their supervision from being contracted by other departments or even other areas. This thus hinders the optimization of factors of production by enterprises, and the rational readjustment of industrial structure. Third, the party inviting tenders has to handle problems concerning other areas, and many functions cannot be accomplished or replaced simply by relying on the competent departments. Fourth, some competent departments make use of the opportunity of invitation of tenders to arrange their work, which is the main reason for pushing up the contract target. Therefore, we need to change the former method of contracting, and establish a new subject of invitation of tenders. A major way to do this is to establish a committee responsible for coordination of work concerning the invitation of contractors.

Such a committee is a professional authority responsible for all-round organization and supervision of the implementation of the contract system. It is also responsible for selection of a winner from among the tendering contractors and concluding a contract with him. As it takes the form of a committee, it is formed by representatives of various departments such as planning, finance, goods and materials, labor, science and technology, trade union and competent industrial departments in charge

of the industry. The committee may, in the light of the current situation, be established in various places in accordance with the division of administrative regions.

The major functions of the committee are:

First, it identifies enterprises which are under the contract system, what kind of contracting method should be adopted, and what is the extent of open invitation of tenders. It may determine the contract type and term, as well as the subject to be granted such contacts (such as individuals, partnership, the whole people or enterprises), in the light of specific conditions concerning enterprises, such as changes in the market, structural readjustment of industry, the development prospects of trades, business situation of enterprises, and so on. Whenever necessary, we may also need to organize special teams or commission or authorize some specialized institutions (such as financial companies) to assess the assets of enterprises.

Second, it organizes or commissions some specialized institutions to assess and select business operators, and is responsible for supervising the process of inviting tenders for bidding and offering contracts.

Third, it issues business certificates and concludes contracts. Besides, it organizes or commissions special assessment and supervisory authorities to supervise and assess activities of enterprise operators. If a contractor fails to perform in a competent manner, it will declare the termination of the relevant contract, and will give another offer for contracting.

Fourth, it coordinates in a comprehensive way the work between enterprises and departments in charge of planning, goods and materials, labor, pricing, taxation, financial matters, and so on.

Since the committee does not carry out the specific work of "distribution of funds and materials," there is no conflict between its work and the interests of departments and trades. Therefore, its establishment is favorable to maintaining a full-scale and fair competition in the process of inviting tenders for bidding, helps cultivate a contract market and entrepreneurs, and is favorable to the lateral investment by enterprises, which involves more than one department and trade, thereby creating conditions for contracting enterprises by another enterprises, and developing the mechanism for merging enterprises.

Being a special institution, the committee does not have any other functions or authority except for offering contracts. On contracting, its relations with contractors are rights and obligations defined by the provisions of contracts, or contractual relations, rather than those of subordination. It is therefore favorable to separating

government administration from enterprise management, weakening the administrative intervention of enterprises by the competent departments, and strengthening the independent role of enterprises.

#### **Second, Standardization of Assessment Organizations and Integration of Supervision and Assessment**

In the process of contracting through competition, the composition of its assessment committee is very significant. This not only involves the fairness of invitation of tenders for bidding and the scope of competition, but also involves ways to correctly handle the relations between enterprise operators and the government, as well as workers. Moreover, it involves the selection, assessment and supervision of the operators. Presently, we still face three problems needed to be solved in our practical work in this respect:

First, the committee carries a very strong administrative element. In other words, most of the members of the assessment committee are representatives of relevant government departments, and only few economic experts and entrepreneurs. It therefore cannot do away with the practice of giving administrative appointments and assessments to enterprise operators, or weaken the administrative intervention and control.

Second, the committee for inviting and assessing tenders is an ad hoc one. As a result, at the initial stage of contracting, a group of people is responsible for assessing and selecting enterprise operators, as well as examining their management and long-term development plans; whereas at the final stage of contracting, another group of people is responsible for assessing the business results of these enterprise operators. Thus, the criteria for selecting them are different from those for assessing them, which makes the department plans of enterprises lack continuity and unified standards for assessment, and is thus not favorable to the long-term development of enterprises. Besides, in the course of contracting, any objective supervision and assessment of an enterprises operator can only be solely carried out by some groups with vested interests, as the committee for inviting and assessing tenders has been dissolved. They often put forward their requirements by proceeding from their own interests, which makes their supervision and assessment deviate from the widely accepted social standards. When the administrative competent departments supervises and assesses the enterprise operators, it is possible that it will switch back onto the track of exercising administrative control; whereas when the supervision and assessment are to be carried out by congresses of workers' representatives, it is possible that too much emphasis will be placed on the distribution of revenue and welfare benefits so that the acts of enterprises will be misinterpreted.

Third, it lacks an effective supervision. There are limitations in many aspects as the focal point of supervision on financial matters is unduly placed on revenue and

financial statements. Moreover, the supervision on auditing mainly focuses on acts violating laws and discipline. In practice, one cannot really understand the economic situation of an enterprise by simply judging matters for the sake of financial revenue. Though profits at face value are high, it is not unusual that losses are covered up and equipment is not really owned. Also, enterprises that are not capable of running their business and that carry out their work other than by rational means do not mean that they have violated any law or discipline, but their acts have undermined their interests. When the external conditions for running enterprises are favorable, an enterprise operator with standard skills may maintain sound business results without falling below the minimum business target set by him beforehand. But an outstanding enterprise operator may run the enterprise even better than him. More often than not, the difference between them cannot be determined by financial results and the inspection and assessment by the auditing department. Particularly, it is impossible to get a real picture of an enterprise in question and is a one-sided practice to assess the work of an enterprise operator concerning the pursuance of long-term development of his enterprise by simply replying on the growth rate of fixed assets. Therefore, we hold that we should clarify the functions of the committee for inviting and assessing tenders, perfect its organization, and turn it into a standing organization so as to exercise effective supervision on the development, perfection and implementation of contracts.

First, we must clarify the functions of the committee for inviting and assessing tenders. The committee should be in the capacity of a legal person acting in the interests of enterprises. It should report to its enterprise, including groups with vested interests in the enterprise (such as owners and investors) and the enterprise's creditors. Its main functions are: (1) to assess and select enterprise operators; (2) at the initial stage of contracting, to examine and approve the long-term department plans and management plans for the contract term formulated by the contractor, and to examine the fiscal budget and plans of profit distribution; and (3) to supervise and assess the enterprise operators.

Second, we should perfect the organization system of the committee for inviting and assessing tenders, which should be achieved mainly by organization and construction. The committee is mainly composed of three parts: First, representatives from relevant government departments, who are mainly representatives of financial, administrative supervisory, banking and other departments. They may be cadres or retired cadres, accountants, economists, management experts or entrepreneurs with professional knowledge commissioned by relevant government departments to act in their interests. Second, representatives of professionals, who are mainly enterprise management experts and proxies of legal persons. Such enterprise management experts may be outstanding enterprise operators of the same trade, or

entrepreneurs of other trades. The proxies of legal persons may be representatives of corporate consumers, or representatives of other enterprises having close relations with the enterprises in question, such as major creditors, or representatives of scientific research institutions related to the technology adopted by the enterprises in question. Third, representatives of workers. The pattern adopted for election of the representatives should ensure that it really represents the proper interests and rights of workers and enterprises.

We should, in the light of the scale of enterprises, set different maximum and minimum number of members for the committee for inviting and assessing tenders, and at the same time, should fix the proportion of three types of representatives in the committee, or should provide the maximum number of government representatives and workers' representatives in the committee.

Third, the committee for inviting and assessing tenders should be a standing body having the status of a legal person, in which the staff concurrently assume their office, and their term of office may be the same as their contract terms which are renewable. The continuity of the committee is ensured by overlapping the new and old terms. For instance, half of the members of the committee may be replaced at the middle of the term of their office and the other half may be replaced at the end of their term. Generally, the committee holds a meeting at a six-month or one year interval to inspect, examine and discuss the business and financial documents of an enterprise. It may periodically send documents on, as well as statements concerning, the business of the enterprise to the members, who have the obligation of confidentiality for the sake of the enterprise.

The implementation of the above measures is favorable to maintaining a full-scale and fair competition, really encourages business operators to emerge through competition in the market and to be assessed by the market by social standards, and is favorable to maintaining the continuity of selecting, supervising and assessing the business operators. It is also favorable to conducting an effective supervision on and objective assessment of the business of enterprises.

In particular, after the committee has become a representative organization having the status of a legal person, it has confirmed the role of an intermediate subject—the subject of incorporation—between the subject of owner and that of the business operator under the system of separating the two rights. Besides, it has found a person who directly assumes the authority of an incorporation, exercise through the incorporation the power concerning its properties, thereby ensuring the decisionmaking power of enterprises. Through the relations of execution of contracts in this respect, there are express and stable provisions concerning the rights of the business operators. Moreover, it also ensures an appropriate separation of the right to operate from that of ownership, and both the authority and efficiency of enterprises' administrative instructions.

## II. To Develop as an Intermediate Organization of the Market Between Enterprises and Government

The development of contract market depends not only on the formation of new subjects who offer contracts and those who undertake contracts, but also the role of being an intermediate organization of the market between enterprises and the government.

In reality, we must concentrate our efforts on the development of three kinds of intermediate organization as follows:

The first one is to develop a social organization for selecting, promoting and protecting entrepreneurs. Such an organization should have the following features:

First, it will build a think tank, select entrepreneurs and recommend contracts for projects by assessing the qualification and achievements of people wishing to contract enterprises, and by actively conducting research on relevant information and materials.

Second, it may be commissioned and authorized by the party inviting contractors to carry out specific activities of assessment of business operators, and to provide short-listed business operators to the said party for examination and approval.

Third, it may act as a guarantor of its recommended entrepreneurs. For example, it may provide a guarantee for a recommended contractor running a large-scale enterprise, or a new person who is not known by other people though he can be a capable manager.

Fourth, it may act on behalf of entrepreneurs and coordinates the relations of interests between the contractor and various social strata, mitigates various contradictions concerning interests, and protects the proper rights of entrepreneurs.

The formation of such an organization will help cultivate new and potential entrepreneurs so as to create opportunities for people wishing to become entrepreneurs. Moreover, it will help provide a comprehensive social basis for the protection of proper rights of entrepreneurs, and create better conditions for the selection of an outstanding business operator by the party inviting contractors.

Presently, the functions of this kind of organization are undertaken by some social organizations, such as associations and clubs of entrepreneurs, and qualified personnel exchange centers. They may also be undertaken by economic entities such as contractor groups and enterprise groups. In the wake of development and perfection of the contract market, this kind of organization will from now on be in the form of separation of two special rights: first are organizations specialized in selecting entrepreneurs, which assume sole responsibility for their profit and losses and are enterprises having a

strong competitiveness by the work of selecting qualified personnel; whereas the other one are institutions representing the interests of entrepreneurs.

Second are organizations specialized in the assessment of assets, such as financial companies and accounting firms. They compete with others by depending on their capability of assessing and evaluating the base of an enterprise's assets, are commissioned and authorized by the party inviting contractors to assess and evaluate the base of an enterprise's assets. Therefore, it is favorable to the social assessment of the base through the market, so that the base becomes more scientific and rational. This avoids acts of bargaining, and improves efficiency of the work of assessment by making the work a social and specialized one.

The third one is to form some intermediate sub-contracting organizations. In other words, anyone who has won a contract offered by the party inviting contractors acts as another party to invite contractors and transfer the contract to another person or enterprise. It may be a fund of an enterprise, which is capable of taking risks, assumes sole responsibility for its profit and losses, and is favorable to the reorganization of enterprises and the readjustment of industries.

## III. To Establish Effective Market Rules

The contract market can only work in an orderly and efficient manner under certain rules. The market rules mentioned herein mainly include the following two aspects:

1. To establish rules for the invitation for tenders through competitions. First, we should formulate the relevant prospectus, and provide basic rules for the process of invitation of tenders through competition. Second, we should formulate codes of conduct and rules for assessment and evaluation. While the former stipulates provisions about the norms and discipline which must be adhered to by the party inviting contractors, contractors and the party responsible for the assessment and evaluation; the latter spell out various criteria on which the party in charge of assessment and evaluation relies in its work of assessment and evaluation. Third, we should set up notary organs for supervising the whole process of invitation of tenders for bidding, so as to ensure the legal effectiveness, as well as a full-scale and fair competition, of the bidding.

2. To establish rules for opening information to the public. First, we should provide that all tenderers should be fully informed in a fair manner through certain media about the bidding, such as bidding notification in the form of newspaper advertisement or broadcast about the provisions concerning the scale of enterprise. Second, we should ensure that all information about the management and operation situation of the enterprises in question is available to the public. This is the main source of

information through which a tenderer understands the situation of the enterprises in question, and provides an objective basis for him to draft his plan to run these enterprises.

## PROVINCIAL

### JINGJI YANJIU on State-Owned Enterprises in Guizhou

HK3009153188 Beijing JINGJI YANJIU  
in Chinese No 8, 20 Aug 88 pp 54-59

[Article by Zhao Guoquan 6392 0948 2938, from the Guizhou Provincial Economic Committee Office for Economic Studies, and Zhou Xiangang 0719 3759 0474, of the Structural Reform Committee General Department under the Guizhou Provincial Government, dated June 1988. Jiang Liming 5592 7812 2494 and Dong Jigang 5516 4949 1511 also joined the study: "Vitalizing State-Owned Enterprises in Less-Developed Areas as Seen From the Case of Guizhou Province"]

#### [Text] I. Obstructive Factors and Environment Differentials in the Development of State-Owned Enterprises in Guizhou

The state-owned enterprises in Guizhou were developed mainly in the late 1950's and during the period of "three-front construction." In particular, enterprises in Guizhou were really molded into their basic pattern during the period of "great three fronts" between the mid-1960's and mid-1970's. According to a general survey on industries in 1985: The number of state-owned enterprises in Guizhou totaled 1,546, or 29.3 percent of the province's total number of industrial enterprises practicing independent accounting; the number of staff and workers was 630,500, or 79.8 percent of the province's total number of staff and workers hired by industrial enterprises practicing independent accounting; the amount of fixed assets owned by them was 11,902 million yuan or 95.1 percent of the province's total amount of fixed assets; their realized output value was 6,964 million yuan or 83.4 percent of the province's gross industrial output value; and their realized profits and tax totaled 1,698 million yuan, or 93 percent of the profit and tax realized by the province's industry. State-owned enterprises were the main force in the economic development of Guizhou.

Following the 3d Plenary Session of the 11th CPC Central Committee, Guizhou took the lead in introducing the contract system to urban areas and to state-owned enterprises. By repeatedly implementing plans on reform, opening up, and enlivening, such as streamlining the structure, decentralizing the decision-making power, substituting profit delivery by taxes in two stages, implementing the director responsibility system, and running business on a contract basis, Guizhou's state-owned enterprises, like other enterprises across China, have gained benefits from reform. Compared to 1978, its output value in 1987 was increased by 1.4 times, its

profits and tax delivery by 3 times, its fixed assets by 96.2 percent, and its labor productivity improved by 95.2 percent. However, judging by the yardstick of enterprises which were really enlivened, a sample survey showed that enterprises capable of self-development accounted for less than 10 percent, and an absolute majority of them were in a dilemma in which they neither became enlivened nor "died."

A statistical analysis among the budgetary enterprises showed that the major problems in development of state-owned enterprises in Guizhou were manifested as: 1) High production costs and poor competitiveness. Their consolidated index of major fuel consumption was 15 percent higher than the national level and 34 percent higher than Shanghai; and their unit cost of fixed price products was 13 percent higher than the national level and 29 percent higher than Shanghai. Facing such hefty production costs enterprises often maintained their competitiveness at the expense of their profits, therefore the profits so manifested and derived from the fixed price products per 100 yuan output value was 54.4 percent below the average level in Shanghai. 2) Little profit retained by enterprises and insufficient development funds. In 1987, the per capita profits retained by state-owned budgetary enterprises in Guizhou was 593 yuan or just 39.3 percent, 70.4 percent and 42.8 percent of the per capita profits retained in 1985 by state-owned enterprises in Beijing, Tianjin and Shanghai respectively. After the deduction of various expenses a very small amount was left to be used as funds for development and production. 3) Insufficient reserve strength for development due to an eastward shift in development focus by the state. During the Sixth 5-Year Plan the per capita investment in the fixed assets of large and medium-sized enterprises totaled 8,550 yuan or 52.6 percent of the per capita investment in large and medium-sized enterprises in Shanghai; whereas during the Seventh 5-year Plan, Guizhou's per capita investment in state-owned enterprises was only one-third of the state's figure, which showed a wider gap between the province and eastern China and many enterprises faced difficulties even in maintaining their simple reproduction. 4) Poor management skills and insufficient force for development. Because of prolonged exposure to the influence of product economy thinking, quite a number of enterprises reacted slowly to their business environment when engaging in commodity production. They put undue stress on their difficulties, indulged in a dependent mentality, and were scared to and not good at exercising the decision-making power entrusted by the state. Moreover, due to overstaffing and poor business management the enterprises lacked the necessary internal driving force for development.

The state-owned enterprises in Guizhou were marked by the following characteristics: 1) Heavy structure. The output value of heavy industry accounted for 69.9 percent which was much higher than the 33 percent in Guangdong and 46 percent in Jiangsu. 2) Development by transplantation. Most of the state-owned enterprises

in Guizhou were not native products of the local socio-economic and cultural development. Instead, they were brought about by a special political background and economic system, which had been established in the wake of threats of war in the 1960's. They thus lacked the nourishment for self-development and were strongly marked by artificial transplantation. There was no market at the enterprises' locations, and neither was transportation convenient nor information easily accessible. Therefore, there developed a phenomenon in which on this side of the barrier highly sophisticated technology was adopted, whereas primitive farming techniques were still used on the other side. Like oases in a desert, enterprises became plots of "fertile land" surrounded by bad land. 3) Sparse overall distribution. Of the province's 175 large and medium-sized enterprises, some 60 percent were sparsely distributed in valleys far away from the urban areas. The 34 enterprises under the Guizhou provincial administration of the original Ministry of Aviation Industry were all located in the Anshun-Bijie-Guiyang area which measured several tens of thousands of square kilometers. 4) Corresponding to and as a result of the above characteristics, the extent of mechanical coupling in economic operations and systems was low; and the social environment for enterprises, the cultural mentality of the masses, the economic actions of the local government, and the necessary conditions in enterprises for their operations were mismatched, thereby forming a situation in which enterprises engaged in a closed-type production.

In the wake of changes in China's economic development strategy and the in-depth development of reforms, history has relentlessly, and seemingly correspondingly, pushed enterprises in western China together with those in eastern China toward the front of commodity production and jointly accepting challenges brought by modern economic relations and systems. Under the unified policies formulated by the state, the distinct features of enterprises in less developed areas will, in the course of development, inevitably face insurmountable difficulties.

First, difficulties about pricing. The number of enterprises in Guizhou undertaking mining and raw materials industries accounted for 32.7 percent of the province's total number of enterprises practicing independent accounting, or 62.9 percent of enterprises undertaking heavy industry. However, the original value of fixed assets owned by them accounted for 56.2 percent of the province's total owned by industrial enterprises, or 60.3 percent of such assets value owned by heavy industry. Thus they owned the largest amount of integrated composition of funds. However, the industrial output value provided by these two types of enterprises accounted for only 33.8 percent of the province's figure. The profits and tax delivered was less than 30 percent. Their rate of returns on capital and investment recoupment ratio were below the province's average level. One of the reasons for this was the irrational pricing of raw materials. Though the state has recently sharply raised the price of fuel, those benefits brought about by such a rise in fuel price and enjoyed by enterprises, gradually subsided in the

wake of corresponding increases in the price of processed products. Moreover, a major part of fuel consumed by the state-owned enterprises in Guizhou was subject to mandatory state plans. For instance, the percentages were 96 for aluminum ingot, 87 for pig iron, 75 for rolled steel, 80 for ferroalloy, 95 for ji jiao [2623 3542], and 90 for cement. The advantages brought to these enterprises by the increase in prices were not apparent, but such increases constantly gave rise to inflation of the aggregated demand and a growth in consumption funds. It was estimated that because of the irrational pricing the amount of calculable losses of profits and tax delivered by state-owned enterprises in Guizhou on the item of raw materials alone was over 600 million yuan, which equalled more than 45 percent of the financial subsidies allocated to the province by the state.

Second, geographical difficulties. Except for some located in large cities such as Guiyang and Zunyi, most of the state-owned enterprises in Guizhou were located in remote mountainous areas, whose the rugged and rough environment prevented them from having easy access. This sharply increased transportation costs and greatly limited the extent of opening up by these enterprises. Furthermore, geographical barriers blocked the circulation of information throughout the whole society, and between enterprises and individuals. As a flexible combination of production factors among enterprises was very difficult it hampered the development of basic social structures such as intellectual development, popularization of technology and production services in enterprises, and the development of cultural undertakings. The economic and social development of the whole province was adversely affected.

Third, marketing obstacles. Guizhou's particular natural environment also developed a particular market environment. 1) Market development was slow and its functions imperfect. Unlike the situation in eastern China, Guizhou had never developed any modern industry or experienced the development of commodity economy. Moreover, its market development was very slow due to the mandatory planned economic system adopted 3 decades ago, and the geographical barrier. 2) The market in Guizhou was marked by regional features and closed and incomplete development. The strength of pulling enterprises together through market media was weak. 3) Distant location from the market. A requirement in developing the commodity economy is to have an enterprise in the vicinity of the market whenever possible, but the province's geographical barriers separated enterprises from their market and they faced difficulties in meeting market demand. According to the survey on 175 large and medium-sized enterprises in the province, in answer to the question as to why enterprises could not be easily enlivened, 75 percent of enterprises said that the main reason was that they lacked the experience of "operations." An analysis of sample enterprises showed that their "marketing cost" (hereinafter referred to as the calculable portion) of production development was usually 60 to 70 percent higher than that in eastern China.

Fourth, difficulties in social cooperation. Commodity production is the socialization of production. The development of a product is usually the result of professional cooperation among enterprises. Modern production requires a high standard of social cooperation. To a certain extent the terms of cooperation and the conditions in the cooperation environment are the key factors in successfully developing an enterprise. Compared to the cooperation terms and conditions for development in eastern China, those needed by enterprises in Guizhou were rather large in amount. Projects that could be accomplished by Beijing, Tianjin, and Shanghai at a low cost could not be achieved in the province. Both Guizhou and Shanghai diesel engine plants produced the model 4135D diesel engine. The unit cost of the engine made by the Shanghai plant was 5,054 yuan, whereas that of the Guizhou plant was 6,923 yuan, or 36.98 percent higher. The reasons for this were: First, the Guizhou plant was built in accordance with professional principles but its major source of accessory parts was in eastern China, so that the cost of cooperation was great; and second, as its related plants were located in remote areas and the supply of component parts from other places was abnormal, it maintained the needs of normal production by overstocking. This increased its production costs because the plant paid an additional annual sum amounting to some 1 million yuan in interest for overstocking. According to a survey on 100 key processing enterprises across the province, the increase in production costs of a product because of the terms of cooperation was about 10 percent compared to that of the same product made by enterprises in eastern China. Social cooperation barriers not only affect the production cost, but also the development of new products. In 1987, Guizhou's state-owned enterprises developed some 200 new products, of which 70 to 80 percent had the potential to meet the market demand. Because of the poor cooperation in producing accessory parts however, it was difficult to manufacture these products by mass production. Many of these new products were eliminated by the market a year later because of too low sales volumes.

Fifth, difficulties concerning the social burden. It was common that the social burden undertaken by state-owned enterprises was excessively heavy. Because of the excessively low overall level of urbanization (being ranked in the last third in China), the functions of Guizhou's cities were imperfect, and their social functions

and social division of labor were mixed. Moreover, many of them were located in remote valleys and thus undertook heavier social burdens. According to the data on some 100 enterprises under the three major industrial systems, the number of non-productive personnel (hereinafter referred to as workers not working on the first front) accounted for about 70 percent of total staff numbers. Among these non-productive personnel, about 40 percent were specially hired to provide social services (such as teaching staff in schools, medical personnel, child care personnel, sales persons, barbers, judges, and public security personnel); whereas less than 230 percent of personnel hired by state-owned enterprises in Shanghai and Nanjing provided social services. The cost of social burden borne by enterprises in Guizhou was over 50 percent more than that borne by enterprises in eastern China.

Sixth, difficulties concerning the social culture and psychology. The culture of Guizhou's state-owned enterprises, mainly marked by the transplanted enterprises, and the mentality of their staff and workers, manifested by the dualist structure developed through differences in economic, social, and cultural aspects. In addition, under this structure the enterprises and families of their staff and workers were in a disharmonious, closed-door, and isolated state. If we let things develop in their own course the human and biological economic environment would be further weakened. Therefore, some far-sighted entrepreneurs warned that a poor human environment would strip the outstanding personnel of our generation of opportunities to show their abilities. If things went on like this the quality of our workers would steadily become worse.

Through comparison and analysis we can see that there is in fact environmental differences between enterprises in under-developed areas and those in developed areas. The enterprise development policy, formulated by the state according to the situation of less developed areas, was actually one of inequality and the implementation of which inevitably brought about differentials in terms of economic results and opportunities.

The differential in economic results was mainly manifested by the fact that the materials consumption by, as well as production cost and losses of, state-owned enterprises in Guizhou (except for non-constant factors due to different structures) were higher than those of the developed areas in eastern China as shown in the following table.

Name of Province (Cities)	Rate of Total Labor Productivity (yuan/man)	Rate of Tax and Profit Delivery (percent)	(1985)		Net Assets Value Yielded Per 100 Yuan Fixed Assets (yuan)	Revolving Cycle of Fixed Circulating Funds (Days)	Losses (percent)
			Tax and Profit Delivery Per 100 Yuan Fixed Assets (yuan)	Yielded Per 100 Yuan Fixed Assets (yuan)			
Shanghai	24981	56.55	64.05	81.24	74.8	5.85	
Jiangsu	13311	29.37	34.59	59.68	89.9	12.79	
Zhejiang	12444	31.15	39.34	65.9	93.6	10.54	
Shandong	13859	23.33	24.47	48.85	103.9	9.95	
Guizhou	10908	11.78	14.68	27.73	144.3	13.38	
National	12372	24.02	24.17	—	—	10.85	

The differential in opportunities was that enterprises faced inequality when seeking development opportunities because of delays. First, the delay was shown in terms of effectiveness of the policy. Shortly after the contracted responsibility system with payment linked to output was introduced to China, Guizhou took the lead in launching widespread popularization. It was also one of China's first provinces and cities to take the lead in implementing the urban economic structural reform. However, when rural reforms brought about enormous enthusiasm for production among peasants in eastern China, and township and town enterprises grew like mushroom, Guizhou's township and town enterprises faced difficulties in a variety of ways. When the state took a relaxed attitude toward credit Guizhou's enterprises did not make use of the opportunity to borrow and utilize money. When they knew how to borrow and utilize it the state began imposing restrictions on credit. For the developed areas, indiscriminate macroscopic control often took place in non-important places; whereas, for the less developed areas it often took place in the important ones. Second, the delay was shown in terms of investment and development. Differences in economic results inevitably caused the state to invest less in the less developed areas, and thus the corresponding chances of development became fewer. This was shown during the Seventh 5-Year Plan when per capita investment in Guizhou was about one-third of the national level. As the chances became fewer, the opportunity cost of development undertaken by enterprises was sharply increased, which in turn developed new differences in economic results. And the situation went on endlessly in this way.

To put it in a nutshell, the difficulties encountered by the less developed areas were not caused by the enterprises themselves. Rather they were the result of indiscriminate development policies and the traditional systems. According to the analysis of several sample enterprises which were moved from Shanghai to the interior part of China, even the most outstanding enterprises from eastern China could not eradicate the above difficulties after relocation in Guizhou. For example the Guizhou diesel engine plant was moved from Shanghai during the three-front construction period, and was an affiliate of the Shanghai diesel engine plant. The production management in the two plants was quite good and they basically produced the same products. Nevertheless, they yielded two extremes of economic results. This could be likened to the business run by people in Nanjing Road, Shanghai, where the price of land was very expensive, and that by villages and towns in remote and poverty-stricken areas. No matter how clever an entrepreneur was he would get two completely different results from businesses in these two areas. The uneven socio-economic development between eastern and western China has brought about practical inequality in competition, which further develops inequality, and if we let the situation go on like this it may become the crux of our problems.

## II. Room for Enterprise Development and Analysis of Current Policy

Through the previous description of problems and difficulties encountered by state-owned enterprises in Guizhou in their development it seems that we may pose the following question: Can an enterprise develop itself without overcoming the above difficulties? The answer is affirmative. There are still some potentially favorable conditions for the development of state-owned enterprises in Guizhou. 1) Advantages in terms of qualified personnel. According to state statistics the 1984 average number of scientific and technological personnel hired by Guizhou's units owned by the whole people was higher than that of eastern China and the national level, being ranked third in China. However, while Guizhou is full of qualified personnel, the rate of specialists lying idle has reached an alarming level. For example, people specialized in the study of advanced technology were being kept busy marketing safes, spring beds, and folding chairs. 2) Advantages in terms of technical equipment. According to a general survey on industries, the per capita rate of fixed assets and equipment owned by state-owned enterprises in Guizhou was higher than that of Shandong and Jiangsu in eastern China by 45 percent and 1.5 times respectively. The number of metal-cutting machine tools per 10,000 people in the province was also higher than that of Shandong and Jiangsu Provinces. However, the average utilization rate for equipment owned by state-owned enterprises is less than 50 percent. Thus, there is plenty of room for development. 3) Advantages in terms of groups. Though the overall distribution plan of state-owned enterprises in Guizhou is sparse, these enterprises are internally closely related. Some bases may undertake the production and development of such products as automobiles, machine tools, electronic equipment, and other equipment and instruments. Thus we can see that under the current situation even enterprises in the less developed areas have much room for development, and the key to do this rests with the adoption of suitable policies on development and reform.

To enterprises in the less developed areas China's current policies on enterprise development are actually restrictions on their development. For instance, on credit policy the requirements for interest rates and credits are the same as those in eastern China. On taxation policy, the product tax, income tax, and adjustment tax borne by enterprises in the province are the same as those for enterprises in coastal regions. On labor and wages, enterprises in the province can neither attract qualified personnel with high wages nor choose the necessary flexible employment in order to reduce their production cost, because everyone handles matters in accordance with the wage scale formulated by the Ministry of Labor and Personnel Affairs. Experience in some developed and developing countries shows that a unitary and rigid development policy does not conform to the situation in which the socio-economic development of a country is uneven.

A nationwide large-scale unified policy cannot meet the demand for development by enterprises in the less developed areas. In order to narrow the gap between eastern and western China, and to stimulate the enthusiasm of enterprises in the less developed areas, we must make our new selection.

### III. The Method of Development and Policy Selection in State-Owned Enterprises

In their future development, state-owned enterprises of the less developed areas face four kinds of selection: First, the state continues to implement its nationwide large-scale unified policy on development. Second, it adopts a tilted development policy toward the developed areas and an even development policy toward the less developed areas. Third, it executes "large-scale strategic change" in the structure of enterprises in western China that does not conform to the economic rules of commodity economy. Fourth, it adopts a "double tilted" differential policy toward eastern and western China. We hold that the former two selections will intensify the unequal competition among enterprises in eastern and western China, so that the economic development gap will be widened. The third one, though it sounds ideal, requires an enormous investment sum and hence brings about large-scale wastage. It is estimated that we need more than nine billion yuan of investment in order to move hundreds of state-owned enterprises out of the valleys. Such an amount equals about 70 percent of the total industrial fixed assets invested by the province over the past 37 years. The fourth one is the implementation of a "double tilted" differential policy. In the developed areas we should adopt coastal development strategy and develop outward-looking economies by means of tilted policies. In the less developed areas we should adopt specially formulated policies and readjust the economic relations between eastern and western China, thereby creating a fair competition environment between them and establishing a dynamic mechanism for the development of enterprises in western China. The strong points are: First, we may basically leave the current basic structure of enterprises intact (except for specific enterprises), thereby saving a large amount of funds for the state; second, enterprises in both eastern and western China can display their talent and get what they want; can stimulate the enthusiasm of enterprises in the two areas; can promote the mutual circulation of capital, technology, and qualified personnel, thereby promoting mutual development between the developed and less developed areas. Third, we may reduce the financial subsidies allocated by the state to the less developed areas, so that the national economy will achieve a relative balance amid an absolutely imbalanced state.

Our basic way of thinking is to readjust the environmental differences by means of policy differences, and to create for enterprises the conditions for undertaking rational competition and assuming sole responsibility for their own profits and losses.

First, investment policy. Proceeding from the rules of commodity economic development the top priority of the principle of investment should be economic results. To take this in greater detail, it should be the shift of increment labor from the collective labor of society to departments, trades, or basic facilities facing shortages in social labor. Therefore the selection of short-term economic results derived from the adoption of a gradient development strategy in eastern, central, and western parts of China is not so good as the selection of long-term economic results derived from development principles based on the "rational allocation of resources," and investment in trades facing capital shortage. The current restrictions on China's resources are more prominent because the country now faces overall shortages in energy resources and raw materials. The state should change its investment policy from the gradient pattern for the eastern, central, and western areas, develop the industrial policy in the direction of pursuing a "rational allocation of resources," and readjust investment in accordance with commodity economic principles and the law of value. At the same time we may lift restrictions on the transfer of funds in the less developed areas on a trial basis. Through the establishment of local investment banks, urban credit cooperatives, and other financial institutes we may pool funds in a more flexible way for investment in industries that will yield better economic results. We should also allow the current state-owned enterprises to engage in, invest in, and run inter-industry business, lift various restrictions on them, and allow them to gradually expand to other profitable trades and industries, provided that they continue to undertake their current production and run the current business. They will thus, like those large Japanese commercial corporations, form genuine enterprises instead of remaining in the current state.

Second, taxation policy. We should act in the light of difficulties encountered by enterprises in the less developed areas, and practice a multi-level taxation policy. We should formulate different taxation standards in accordance with different conditions, and readjust the non-business differential revenue in the developed areas by means of taxation policy, so that enterprises in both the eastern and western areas will have a fair competition environment. Treatment for the less developed areas should be different from that for the developed ones in terms of product tax, value added tax, business tax, and income tax. The difference in economic results caused by environmental differences should be disregarded when determining tax rates.

The implementation of multi-level tax rates does not mean that the state "cuts taxes and reduces profit delivery." In essence it is an effective method for the state to provide basic support to enterprises in the less developed areas for their growth, and to promote the formation of a market mechanism.

Third, ownership policy. We should adopt a more flexible ownership policy for state-owned enterprises in the

less developed areas, and promote changes in the organizational and internal structures of enterprises through changes in the form of ownership, so as to improve their development ability despite the incomplete commodity production conditions. We may consider: 1) Transferring all or part of the ownership of assets by enterprises whose commodity production environment is too poor and which are unable to move to other places in the near future. Through auctions we may transfer all or part of the assets owned by enterprises to collectives and individuals, so that the properties of these enterprises will be diversified and then their board of directors, to be formed by the state, collectives and individuals, will recruit people through open channels to run their business (the transfer of all properties is subject to the decision of their owners), while the staff and workers hired by the original enterprises can elect whether to stay or to go. The implementation of a diversified form of ownership may stimulate the enthusiasm of both asset owners and enterprise operators in running their business. This, together with the allocation through a multi-level taxation policy, may ease the pressure of rigid production costs on the enterprises and may improve their competitiveness by changing their business actions without changing their environment. 2) Practising the dual form of ownership by the state and enterprises among other state-owned enterprises. Proceeding from the state of value, the state owns the means of production consumed by enterprises; whereas enterprises are actually the ones that hold, utilize, and dispose of the means of production. Subject to the law of the state, enterprises may undertake the circulation and transfer of assets. An investigation showed that after installation by the machine-building department in Guizhou Province, 10 percent of the equipment was left idle. The utilization rate of equipment possessed by key enterprises was also low, about 45 percent on average. The exchange and transfer of fixed assets, and the double constraint on business operators by the state and enterprises may, to a certain extent, help solve problems of insufficient development funds and boosting the internal strength mechanism in the less developed areas.

Fourth, wage policy. We should formulate policies that integrate "high-income guidance with low-wage employment," and as much as possible lift restrictions on wages. In terms of policy, we should allow and encourage a sharp increase of income and wages earned by business operators of enterprises, and the increase in income and wages of personnel who have made contributions to the development of their enterprises. At the same time we should maintain a gradual annual increase in the wages of ordinary producers, while reducing their proportion of the total wages, so as to stimulate the growth of entrepreneurs and other capable persons. We should, through an open and competitive wage policy, change people's ideology about commodity economy which was formed following a protracted closed situation. The implementation of this policy may be very rigid and painful for the time being, but reform of distribution is an inevitable step in commodity economic development,

so that the sooner we take it the better it will be for the development of enterprises. It is proposed that the state may, to a certain extent, decentralize the decision-making power about wages to localities.

Fifth, the increase of economic means of readjustment for local governments. The economic difficulties about the development of Guizhou's enterprises were developed throughout the whole course of economic operation. Thus enterprises urged the government to give assistance and solutions according to the actual conditions. A difficult point was that the local government could not utilize the economic means of readjustment such as fiscal policy, currency policy, property policy, exchange rate, tax rates, and interest rates. As the coordinated economic policy provides little room for maneuver, the local governments inevitably look for an alternative choice to achieve their goals such as reducing and exempting taxes related to the fiscal policy. This is one of the reasons for developing the current tide of cutting taxes and reducing profit delivery. In the final analysis the practice of cutting taxes and reducing profit delivery goes against the policies of the central authorities and relevant departments, and it contradicts the goal of increasing financial revenue. The local government thus looks for the second alternative choice—the development of local financial industry by establishing local trust and investment companies and urban credit cooperatives. As the less developed areas depend on the subsidies allocated by the central authorities it is necessary for the local governments to have to hand more economic means in order to pave the way for developing enterprises, provided that they do not affect the overall revenue and expenditure of the central authorities. Therefore, to make the authority of local governments correspond to their liabilities may help utilize in a better way the initiative of local governments.

Sixth, policy of planned assistance. Under the present circumstances where the national industrial policy is still very unclear, the less developed areas should focus on readjusting the organizational structure of enterprises while formulating their public investment plans. In areas which obviously need development support we should strengthen the organization of enterprise groups by making "plans on a separate list," so as to enliven those transplanted enterprises with higher productivity. After forming enterprise groups by means of planning we should allow them to enter the national and world markets. We should make plans on a separate list, provide large-scale production projects to military industrial groups, and utilize capital intended for corresponding facilities to transform the current production lines so as to increase the inventory through the increase of production. This may bring vitality to the penniless military industrial enterprises in those remote valleys. Of course, making a separate list is a stopgap measure during the transitional period, and the groups will be put onto the market after they have grown strong enough.

Seventh, policies assisting pricing. Pricing plays an important role in organizing economic activities. However, the planned pricing faces such difficulties as the less developed state in raw materials and energy generation industries, and shortages in usable developed resources, in the course of changing the market pricing. Following the formation of a dual-track pricing system the production of part of the raw materials subject to market readjustment was stimulated so that there was a rise in enthusiasm. In return, the demand on raw materials further promotes the development of energy resources. Therefore the dual-pricing system for raw materials should be promoted in the market, and is an important factor for accelerating the development of enterprises in the less developed areas. Of course, a price readjustment of raw materials does not necessarily bring about a continual ideal growth in the mining and raw materials industries. We hold that the state should further readjust the raw material prices. While it is not necessary to readjust the planned prices in the near future, the prices of that portion as a result of increased production may be subject to market readjustment. In addition, we should gradually open the part subject to planned pricing to the market, while expanding the part subject to market readjustment. However, we must check the spiral increase in prices of products made by the processing industry, so as to avoid the increase in price of the means of production exceeding the growth of labor productivity and the development speed of production. We should promptly put an end to the seriously irrational situation where the price of a product does not conform to its value. Otherwise the enthusiasm and drive to develop energy resources by enterprises in the less developed areas will not be stimulated.

## FINANCE, BANKING

### Currency Stability, Monetary Policy Goals Discussed

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[Article by Zhu Delin 2612 1795 2651: "Stabilize the Currency—the Pressing Matter and Long-Term Goal of China's Monetary Policy"]

[Text] China is facing the most serious inflation since the founding of the PRC. This is a sign of loss of balance in macroeconomic control amid the economic development and reform in recent years. The plight of the renminbi has been expected by those who advocate "stabilizing the currency," but is not what those who argue that "money stimulates the economy" have anticipated. The present grim money situation is testing the different schools of thought on monetary policies. Today, we have sufficient reasons to say that stabilizing the value of the RMB should be China's near-term monetary policy and long-term goal.

### I. Inflation: The Failure and Plight of a Monetary Policy

Stabilizing the currency is the ultimate goal of monetary policies in a scarcity economy, or we should say a resource-constrained type economy. There is a huge difference between a resource-constrained economy and a demand-constrained economy. In a well-developed Western commodity economy, there is surplus productive capacity, and therefore its development is constrained by demand in society. This is a demand-constrained economy. The so-called Western economic crisis is the periodic economic fluctuation caused by excess supply and inadequate demand. For this reason, the monetary policies of those countries naturally should focus on eliminating the obstacles to economic development posed by inadequate demand. As a result, surrounding the overall task to increase effective demand, they have formulated four major, interrelated goals: develop the economy, stabilize the value of the currency, strive for full employment, and balance international payments. At the present stage, China's economy is still a resource-constrained economy. Compared to the demand-constrained economy of the West, our economic development is under very different constraints. Ours is not a problem of lack of demand but of lack of resources, that include all latent productive forces such as energy, communications, raw and processed materials. One of the most profound, and the strongest, tendencies in this system is the non-stop expansion impulse which leads to an insatiable crave for investments. Kornai, the well-known Hungarian economist calls this an economy in a "Keynesian" condition marked by insatiable demands. These insatiable demands are a passive impulse estranged from the level of productive capability. Once unleashed, they will inevitably lead to a tense economic situation and generate cyclical fluctuation in the socialist economy. Thus, the focus of macroeconomic control in a resource-constrained type economy, no doubt, should be on controlling demand. We must limit demand to the scope permitted by our productive capability, not the reverse.

Social demands, in the final analysis, stem from the means of circulation and payment. From individual enterprises to the entire society, once we have money in hand (money in the broad sense is cash, or bank deposits generated by fund allocations), instead of just a wish, demand turns into possibility, and it exerts real pressure on supply and intensifies the economic motion. Since controlling demand is the focus and the stumbling block of China's macroeconomic control, as the principal macroeconomic control mechanism, our monetary policy must be actively coordinated with the control effort. From this departure point, the ultimate goal is to control tightly the issuance of money and stabilize the value of the currency. In fact, stabilizing the currency is a means to balance total supply and demand, but a stabilized currency is also the result of balanced supply and demand. If the central bank successfully stabilizes the currency, it will have contributed to achieving supply and demand equilibrium.

Stabilizing the currency is the ultimate goal of China's monetary policy, but this does not imply that it is the only goal. The goals of our monetary policy should include achieving economic development, reasonably full employment, and balanced international payments. The multiplicity of monetary policy goals is often what makes them complicated and formidable goals to accomplish. In the demand-constrained type economy of the West, serious conflicts exist among the different goals, and often achieving one goal means failing another; seldom can all the goals be accomplished. But there are examples of success, such as in the Federal Republic of Germany. For a long time, China's currency has been stable, and the economy has been growing, which show that despite the conflicts among the different goals, there can be unity. Some people worry that stabilizing the currency will impede economic development. This simply is a misunderstanding. Stabilizing the currency does not mean stop issuing currencies or freezing product prices. Instead, it only insists on printing money for economic reasons, not for financial reasons. Issuing money for economic reasons means a monetary policy goal which facilitates "economic growth." Regretably, some people put the wrong meaning into this monetary policy of "economic growth" and resort to inflation to stimulate economic development. This theory has influenced the formulation and implementation of our monetary policy and has brought serious consequences to the national economy. Worse yet, the theory of resorting to inflation to stimulate the economy has persisted, and that is why, today, we must emphasize the special role and the important purpose of this country's monetary policy to stabilize the currency.

If stabilizing the currency is deemed the ultimate goal of China's monetary policy, we must admit that the present inflation marks the failure of that policy, despite many other causes of inflation. Yet, inflation is not the result of just the failure of monetary policies, and it would be unfair to blame it all on that. The economy, after all, is of primary importance, and banking is only secondary. To be fair, inflation is the combined result of a wrong choice of monetary policy goals and the difficulty in implementing monetary policies.

China's problem with its monetary policies can be traced to economic and political causes. The economic causes include the limited extent of use of credit in place of money and the dual economic system.

The monetary credit economy is the object of monetary policies. A monetary policy affects the monetary credit economy by manipulating the quantity of money, the subject of the monetary policy mechanisms. The greater the extent of use of monetary credits in a country, the more "sensitive" are economic activities to the monetary policy, the broader the permeation of monetary policy mechanisms into the socio-economic realm, and the stronger the effects of that policy. Conversely, the lesser the extent of use of monetary credits, the less important are monetary policies, and often they become

appendages of other regulatory mechanisms. In a product economy characterized by highly centralized planning, currencies are but an accounting tool. In substance, there are no independent policies regulating the movement of money. China is in the primary stage of socialism; our productive capability is low, and the products are just beginning to be commercialized. In fact, ours is a "commodity-product" economy, or an incomplete, imperfect commodity economy, that is, a quasi-monetarized economy. Our monetary policies have a weak economic foundation and are slow to take effect. The function of money, to quote Kornai, is "passive." This is because the activities of enterprises and the non-profit organizations are decided by a multi-level process which has nothing to do with the money supply. These activities determine the demand for money, but the money supply is adjusted passively to satisfy the demand. Because of its passivity, money cannot take the initiative and actively abide by the monetary policy goals.

Besides the limited extent of use of monetary credits, the main difficulties with the economic system are:

1. The problem with the system of planning. The national economic plan made under the economic guiding principle which seeks accelerated growth poses the greatest monetary policy problem. For example, the credit loan plan is a monetary policy tool, but it follows the same vein as the national economic plan and sets out to accelerate economic growth. The amount of fixed asset investment is determined before deciding on the amount of money to be printed, and if demand for current fund loans cannot be met, the gap is ignored. A large part of this gap, for one reason or another, is filled by the bank which eventually is forced to increase the money supply. For decades, we have a saying: "The planning committee orders the food, and the bank pays the bill."
2. The problem with the financial system. Mainly, we have two problems. One, each year financial deficits at the central level are financed by overdrafts at the central bank. Two, most of the bank profits are handed over to the higher authorities, but public finance has no provision for current fund loans which are the sole responsibility of the banks, and so when the central bank runs out of credit funds, it remedies the situation by issuing more money, to the point beyond what the economy can bear.
3. The problem with the investment system. China's public finance is production-oriented and embodies the functions of investing directly and managing those investments for the state. Society's key projects should, by all reason, be funded through the the government's financial budget. But in recent years, a significant portion of the fixed asset investments has been funded through bank loans. Statistics show that from 1976 to 1986, the expanded scale of investments had resulted in a deficit of close to 50 billion yuan, 70 percent of which were remedied by bank loans and bank overdrafts. In addition, because the state has been participating

directly in expanded reproduction investments and hiding the red ink to solve the financial shortfall problem and treating the banks as a second budget and ordering them to extend huge loans year after year—up to the end of 1986, basic construction loans extended by banks alone have reached 40 billion yuan. Most of these loans are used to finance government specified projects—banks have to “obey orders to lend money.” This in fact is deficit in disguise. In short, on the matter of expanded reproduction investments, public finance still controls and governs banking. As the lead players, banks still have to submit to public finance. Nothing has changed after all these years. “Basic constructions squeeze public finance, and public finance squeezes the bank.”

There is another serious problem with investments—local projects and township enterprises. New enterprises, as productive accumulation, should have fixed assets and current funds. But at present, newly established local industrial and township enterprises often gather only fixed funds and have no current funds. Once the basic constructions have been completed, on behalf of enterprises, local party and government force the banks to lend money to finance production. With this kind of investment, should a bloated credit volume be surprising?

China's investment and monetary policies form an inherent relationship whereby actual investment is the primary factor and the availability of funds is the derived phenomenon. The former is the cause, and the latter is the effect. Money is not the driving force; its effects are passive, and it caters passively to the investment needs. Because the central bank has the printing machine, more money can always be created.

4. The problem with the enterprise system. At present, China's industrial and commercial enterprises are quasi-enterprises. They have not made the transition toward becoming bona fide independent economic entities. The system of the “same big pot” remains basically unchanged. “Reaction” to monetary policy adjustments is slow. These are impediments. A serious problem among enterprises at this stage is their short-term behavior and their administrative tendency. Short-term behavior is demonstrated by their pursue of workers' welfare and wage maximization. There seems to be no end to the increases. Administrative tendency is demonstrated by their compliance with the wishes of the government departments to pursue high output value, and as a result, they borrow as they produce as debts pile up as they demand more loans, and thereby, enterprises basically ignore the interest on loans. They only worry about how much money they can borrow.

The above factors become a three-way chain reaction to the over-allocation of the national income. Over-allocation leads to excess demand which leads to extra-economic motion and to devaluation of the RMB. Inflation may thus become reality.

5. The problem of the yet-to-be-reformed political system. This problem is often referred to as the intrusion of politics into finance. All along, China's economic situation has been tense. The root of the problem is beyond the economic domain and is to be found deep down in the systems relationship and the regular pattern of behavior of the decisionmakers created by this relationship. The behavior of the majority of the decisionmakers has generated the excess political constraints on banking in China. For example, state monopoly of the financial sector has turned banking into a government administrative organ; the central bank lacks necessary independence, and the branch banks look out for local interests only; the change in the money supply is arbitrary, and local governments are meddling incessantly in the business activities of the specialized banks. Undue political intrusion often restrains the implementation of monetary policies.

## II. A Stable Currency: The Product of a Correct and Steadfast Monetary Policy

Economic history in China and abroad shows that whether it is a socialist economy or a capitalist economy, a stable currency inevitably is the product of a correct and steadfast monetary policy, and inflation may either be caused by error in the choice of monetary policy goals or, despite the correct monetary policy goals, by severe economic or political disturbances and lack of conviction in implementation.

Among the post-war capitalist countries, the FRG has been very successful in developing its economy and stabilizing its currency. This is attributable first to the correct choice of monetary policy goal—the goal to “defend the Deutsche mark” in accordance with domestic and foreign economic situations. Second, the monetary policies are implemented with firmness, as manifested in complete absence of deviation from the objective. At the same time, they have a set of healthy, and strict financial legislations, and the government and congress have always paid special attention to and have supported a stable currency.

Even capitalism has the ability to stabilize the currency. The socialist economy is far superior to capitalism, and therefore there is no doubt that we can stabilize our currency. China's socialist economic history of the past 40 year demonstrates that the value of the RMB can be stabilized. We have sufficient evidence to prove this. The key lies in whether we have the correct monetary policy goals, and whether we can implement our policies firmly.

The correct monetary policy is the crucial condition for stabilizing the currency.

What kind of monetary policy should China adopt? Theoreticians have three different propositions. The first proposition advocates stabilizing the currency; the second advocates developing the economy, and the third

suggests emphasizing a combination of economic development and currency stability. This writer thinks that the first proposition is the only correct choice at this primary stage of socialism. Besides the above reasons, the goal of stabilizing the currency is correct in a more profound sense, because it can prevent the cyclical demand fluctuation in the socialist economy. The locus of China's economic development in the past 40 years shows that a pattern of cyclical fluctuation exists in the socialist economy. It follows the general course of "stability—overheating—all-out tension and serious disproportion—adjustments—renewed stability...." The super-high rate of economic growth is the fundamental cause of this cyclical fluctuation, and inflated credit volume is the catalyst which turns the impulse of an overheated economy into reality. Thus, to eliminate the above kind of fluctuation, we must take drastic measures to control the issuance of currency and stabilize the currency in order to successfully halt excessive investments and maintain stable and continuous economic growth.

Firmness in the implementation of the monetary policy is an adequate condition for stabilizing the currency.

Firmness in the implementation of the monetary policy is demonstrated first by steadfast adherence to the policy goals, an unperturbed steadfastness at all times. Changeability and contingency in a monetary policy are signs of lack of conviction. Contingency or pragmatism means using monetary policies as needed to solve specific economic problems and to coincide with the government's regular economic decisions. Changeability means the sporadic tightening and easing of the money supply. If a monetary policy shows the above weaknesses, inflation will be inevitable. The cyclical economic fluctuations in China stem from the demand impulses within the economic organisms, and the money supply is the carrier of social demand. When the economy shows signs of overheating, if we insist on normal standards, surging demand will remain an impulse, and inflation will not materialize. If the central bank fails to implement its monetary policy with firmness and goes along with the economic trend to ease the money supply, then the demand impulse will immediately turn into real demand, and inflation will become reality. For example, in early 1986, economic growth was relatively slow, and some people blamed it on the tight loan funds, and when the people began to clamor, the central bank yielded, and the money supply began to increase. As a result, credit loans in 1986 surpassed the 1984 volume, and the already out-of-control demand was pushed to a new height.

How firm a monetary policy is often depends on its role in the national economy. China's monetary policies have been successful at times and have failed at other times because they have always played a passive role.

It is obvious that China's monetary policies are passive. When the economy shows signs of steady growth, often there is the urge to accelerate, to increase the rate of

accumulation, to expand fixed asset investments, and to do everything that causes the economy to overheat. At such times, monetary policies to stabilize the currency are replaced by irrepensible expansion, that is, they are negated by the government's economic plan of acceleration.

Only when plagued by disproportions, serious deficits, inflation, and cyclical economic disturbances, do monetary policies reassert their important role. As soon as the economy recovers, before long those policies to stabilize the currency are once again shelved.

The present financial and price situations are grim, and the state once again is applying a "double" tight financial and tight monetary policy. We cannot help but ask, how long will such policy last? We hope that this is a good beginning. We must not promote a reckless expansionist economic policy as soon as the currency is stabilizes and the economy recovers.

A steady monetary policy of significant status is marked by the central bank's independence. The fact that China's monetary policies are passive is not something the central bank asked for. It is due basically to the bank's lack of independence. At the 1985 International Macroeconomics Symposium, the president of the FRG Bundesbank, Emminger said, "Experiences in the past 60 to 70 years show that much of the inflationary tendency and pressure have been caused by politics. We need a strong counterforce to maintain proper currency stability." This counterforce primarily is the independence of the central bank.

In order to ensure the steady and secure position of China's monetary policies, we must augment the central bank's independence in deed, not just in words. Based on actual conditions in the country, we have two alternatives: one program is for the People's Bank of China to be directly responsible to the National People's Congress. The bank president is to be appointed by the standing committee of the National People's Congress, and financial macroeconomic decisions must be ratified by the standing committee. Similar to the People's Court and the Procuratorate, there should be no administrative interference. In this way, the relative independence of banking activities is guaranteed by the nature of the institution, by the way personnel are appointed, and by the way macroeconomic decisions are made. But to accomplish the above, we have to be absolutely firm. Another option is to retain the subordinate status of the institution, but put the power to make macroeconomic decisions in the hands of the standing committee of the National People's Congress. Each year, the comprehensive credit loan and foreign exchange revenue and expenditure plans must be ratified by the standing committee, and a progress report must be submitted to the National People's Congress regularly, and the banks is subject to inquiries.

### III. Stabilizing the Value of the RMB is the Ultimate Goal of China's Monetary Policy

The RMB used to be one of the most stable currencies in the world. It used to enjoy the highest esteem and status. Today, lower currency value and higher prices have affected the strengthening and development of the economic reform as well as our political stability and unity. Thus, halting inflation and recovering the position of the RMB has become an urgent task. The adoption of the "double tightening" of the financial and monetary policies in 1988 has been a wise decision. The whole country is unified in an unanimous effort, and recovering the value and the status of the RMB is definite possibility.

The key to stabilizing the RMB lies in controlling the proper quantity of money supply. This writer agrees with the proposition of an orderly or "neutral" monetary policy. "Neutral" monetary policy means that the central bank should not succumb to the economic trends and avoid taking expansionary or tight measures sporadically to counter short-term economic fluctuations; instead, it should insist on a long-term steady goal. The central bank should decide on a relatively stable rate of increase in the money supply, based on the increase in total supply in society and taking into consideration the price level and the velocity of money. The central bank should stand by its principle and put the proper quantity of money into circulation independently and steadily to create a proper environment for healthy economic growth.

A problem to be resolved here is the rate of increase in society's total supply, that is, the rate of economic growth. Macroeconomic decisions influenced by the desire to seek quick success often tailor the rate of economic growth to demand, regardless of ability. The formulation of plans tends to be subjective, and as a result, each year, the final national economic plan is riddled with impossible fund shortfalls from the start, and the bank is expected to issue money to correct the deficiencies. The increase in total supply should be determined by how much society can produce, not by how much society hopes to produce. As for its being a problem, the formulation of the country's economic plans basically is not subject to the constraint of the legal or political systems. It is subject primarily to the "self-restraint" or "self-discipline" of the economic leaders at the highest decision-making level. Thus, we can only hope for the reform of the political system to set up a democratic and scientific economic decisionmaking system to solve the problem.

Is the core of the monetary policy, that is, the control of the quantity of money and the credit volume, or what is usually called the supply-control type monetary policy, consistent with the goal of stabilizing the currency? We can say that at the primary stage of socialism, especially in the recent scarcity economy, they are consistent. The reason is, as we said earlier, in an economy with limited resource, demand is unlimited, and only by controlling the quantity of supply can we restrain the total demand

generated by society's purchasing power. Today, some people suggest shifting the focus of monetary policy from quantity control to modifying the demand for funds. Modifying fund demand must rely primarily on interest rates as lever, and at present it is not a realistic tool for us. Using interest rates as lever is based on a complete and total commodity economy. At present, and within the foreseeable future, China's economy should be characterized as a combination commodity-product economy. The main players at the microeconomic level are the imperfect commodity producers and imperfect administrative subordinates. Their economic behavior is constrained by the profit objective and the economic plans, and the latter often have a tendency to cause the economy to overheat, and therefore the ability of interest rates to modify behavior is only minimal. Therefore, within the foreseeable future, regulatory-type monetary policy is not practical. The central bank's possible policy choice, without a doubt, is to emphasize controlling the money and credit loan supply.

The implementation of a policy requires a set of tools. At present, China's monetary policy is equipped with four tools: the credit fund volume, loan reissuance, reserve deposits, and the interest rate. At present, China does not have an open market, and therefore the central bank's adjustment of the specialized banks' loan reissuance, the control of the amount of basic currencies in circulation, and the tightening and easing of the money supply are effective and very flexible tools.

It is necessary to point out that it is not enough just to control the credit loan volume. If the issuance of currency is not controlled, huge increases in the supply of paper money, or increasing arbitrarily the rate of cash payment on deposits, can lead to inflation too. On top of the rapid rate of increase in past years, the present consumption funds are still swelling, especially the state workers' wage expenditure which for a while had dropped but because of the comprehensive wage reform has been rising at a rate of 40 to 50 percent since last September. Faced with today's grim situation, the control of currency issuance must not ease up. The central bank should adopt decisive measures to make it a systematic and long-term policy: 1. Formulate and implement a strict cash plan. 2. Tighten supervision of the wage funds. 3. Control the specialized banks' deposits and withdrawals. Once the credit volume and cash issuance are under control, the total money supply can be controlled, and the currency can be stabilized.

#### Resolving Short-Term Outlook of Specialized Banks

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[Article by Zhang Yaoqu 1728 5069 0575 of the Zhuhai Industrial and Commercial Bank: "On the Problem of the Short-Term Vision in the Actions of Specialized Banks Converted To Operate as Enterprises in Their Own Rights"]

[Text] The reform which converted specialized banks in the special district into enterprises in their own rights was a reform that centered on profit and is not only a

renovation of the financial structure, but also induces renovation of human concepts. However, as the reform is pursued in greater depth, a certain shortsightedness in the actions of financial enterprises have already created obstacles in the path of the conversion of specialized banks into enterprises in their own right. This is a matter that has to be taken very seriously.

### **I. The Nature of Short-Term Actions by Specialized Banks Converted to Enterprises**

By the term "short-term actions" we refer to the following ways that specialized banks act after the reform has converted them into enterprises: They act (1) without consideration for the interests of the state, (2) without consideration for the benefits of society, and (3) without consideration for the long-range development of their own business operations, merely acting with an eye to immediate partial and local benefits for their own enterprise and its staff and workers. The core objective in the conversion of specialized banks to enterprises is profit, and a prerequisite is granting the business banks and divisions ample autonomy in their business operations. But profit is not at all equally distributed among the various banking enterprises, and it is the internal motivation that drives the various banks and divisions to use all their energies to fully utilize the favorable subjective and objective conditions in an effort to gain the largest profits for themselves. But since relations between the specialized banks and the government as far as distribution, assets, and other mutually restraining elements are not yet in an ideal condition, this situation has created certain external conditions that would allow specialized banks to act out of short-term considerations. These short-term actions run counter to the objectives of the entire financial structural reform of the state.

### **II. Causes for Short-Term Actions of Specialized Banks Converted to Enterprises**

A. Inconsistency in economic policies governing long-range and short-term activities. China had for a long time followed a system of a highly centralized planned economy. Under its external influence, China has never had a well-coordinated economic policy governing long-range and short-term activities. Just as the defect in the credit management faced in the financial system, each instance of relaxation in policies led to a state of confusion, each state of confusion led to the imposition of controls, each imposition of controls resulted in a mortal rigidity, and after mortal rigidity, policies were again relaxed. This evil practice—healing the head when the head aches, healing the foot when the foot aches—was quite prevalent before the reform. Although the objective of the state's economic policy is long-range economic development, there have been many more short-term policies. To prefer working for short-term effects is universal human nature and an inborn attitude, which, triggered by certain external elements, helped to bring about the short-term actions of the banking enterprises.

B. Inappropriateness of the contract periods. The inappropriateness we mention here refers to the continuity of responsibilities contracted for. The reform that converts specialized banks into enterprises pursues essentially two purposes. One is improvement in the functional aspects, i.e. a comprehensive contract responsibility system, and the other is an institutional transformation, i.e. a system of leasing all shareholder rights. About the latter purpose, there is much debate and it has not yet been implemented. The former purpose has already been implemented in the banks of over 20 cities as experimental units throughout the country. Although the patterns of implementation have been different, they all have a common shortcoming, namely that the contracting parties have rights and are responsible for obligations only for the duration of the contract, but not concerned with rights and obligations beyond the term of the contract. If an action by the present contracting party endangers the interests of the contracting party of the next period, even someone with a much longer contract time, in other words, if losses in business operations of the next contracting party or party with a much longer contract period (loss from bad loans) is directly or indirectly brought about by the contracting party of the first period, what would be the responsibility of the contracting party for the first period? Similar long-range actions have not, or have seldom been clearly provided for in the text of the contracts in proper legal form. The lack of a continuing responsibility in the contracts gives banking enterprises a green light for acting out of short-term considerations.

C. Imperfections in the personnel system. The reform in the personnel system throughout the banking system, namely from a system of pure appointments to a combined system of appointments with employments, is undoubtedly progress. But no simultaneous reform was effected with regard to short-term action that may occur during the terms of office of cadres. For instance, what obligations and what responsibilities has the cadre of an enterprise during one period of office for later, long-range developments? If these problems are not solved, it is absolutely certain that actions will be taken out of short-term considerations.

D. The imperfect state of the system of performance evaluation norms. The reform that converts specialized banks into enterprises must start out from the aspect of their business operations and must scientifically determine a system of performance evaluation norms. This system of norms must comprise evaluation norms for short-term activities during the contract period as well as norms taking into consideration the objectives of long-range development beyond the contract period. Only by mutually combining long-range and short-term performance evaluation norms, by having them mutually restrict each other, can operators working out of short-term considerations be effectively restricted. But looking at the norms set up for the experimental contract banks we see that they all smack very much of short-term action, which means that the contracting parties, apart

from some cases where provisions have been made for complete performance evaluation norms, have no specific contract provisions that would take into consideration the objective of long-range development of the entire enterprise.

E. Disparity between enterprise interests and the interests, objectives, and motives of the state. This relationship has macroeconomic and microeconomic aspects, and concerns the partial, local situation as well as the overall situation. As the first consideration of a banking enterprise is maintaining its own existence and development, it is only natural that it will first of all attend to its own interests; that is quite normal. The question is only, if a disparity arises between local interests and the interests of the entity, how will the state exercise restraint on the enterprise to ensure the interests of the entity. In the present relationship between the state and the enterprises, the state is delegating authority and giving the enterprises full autonomy in business operations. That is the main pivot of the reform of China's economic structure. It means that the state will relax its direct restrictions over the enterprises and will rely only on indirect regulatory controls. But under the present conditions, the state has hardly any means of indirect regulatory controls, and as a result there is a lack of effective controls on short-term actions by specialized banking enterprises.

### III. The Effect of Short-Term Actions on the Conversion Banks Into Enterprises

A. Short-term actions obstruct the progress of the entire economic structural reform. The reform that converts specialized banks into enterprises is a major organizational component of the entire economic structural reform, the short-term actions of banking enterprises are nothing but obstacles to the reform that converts banks into enterprises, and are thus also great obstacles in the entire economic structural reform.

B. They are detrimental to the objectives of the reform that converts specialized banks into enterprises. The objective of the reform to convert specialized banks into enterprises is generally thought to be the "four selfs," namely self-determination in business operations, self-responsibility for profits and losses, self-assumption of risks, and self-effort in balancing capital. This writer believes that two more "selfs" should be added, namely self-remolding and self-development. But the short-term actions of enterprises are running counter to the two objectives of the reform, namely to self-remolding and self-development, and are thus detrimental to the developmental objective of the reform that converts banks into enterprises.

C. They make it impossible to ensure achievement of the long-range interests of the state. Because short-term actions only pursue partial, local interests and disregard the interests of the overall situation, while the ultimate objective of the reform converting banks into enterprises

is to achieve the harmonious development of both the entire financial structure and the entire economic structure. However, short-term actions by banking enterprises are detrimental to this long-range developmental objective of the state.

### IV. Effective Way To Eliminate Short-Term Actions: Restricting the Interests Involved

Internal motivation for short-term actions of banks that are transformed into enterprises is to reap the largest possible profits for themselves. The tendency toward short-term actions by banking enterprises is determined, on the one hand, by the external stimulation of the economy, but, more importantly, by the microeconomic decisions in the action mechanism of the leadership of these banking enterprises. At the same time as the means of external macroeconomic regulatory control are perfected, a complete system of performance evaluation norms must be formulated, which shall deal as its core content with responsibility, authority, and profit. This system must combine short-term and long-range evaluation norms, and its crucial point must be to restrict, in the area of the interest relationship, any microeconomic decisions of the specialized banks that have been converted into enterprises. That would be an effective way to eliminate short-term actions by enterprises.

A. In the Matter of Performance Evaluation Norms, the Following Must Be Given Consideration:

1. The system of cost control. When the banks shift from a system where currency used to be provided for them to a pattern which has the banks handle currency business, it goes without saying that much has to be done to achieve good results. There are two ways to improve results. One is expanding business operations externally and thereby increase income, and two is reducing costs internally and thereby increase income. It is therefore an important side in attempts to revitalize banking enterprises to start out from trying to achieve internal vitality by devising scientific cost control norms, which, after all, is also the core link in these efforts. At present the various experimental banks, by comprehensive contracting done at the level of their savings deposit offices, are already accomplishing various kinds of valuable experiments. However, when setting up cost norms they must be based on the special characteristics of the banking enterprise, start out from its business operations, and center on the two important indices of the bank's cost accounting, namely costs and expenses, and adduce other indices, such as productivity per average person, deposit increase rate per average person, and profit and tax rate per average person, to be included and evaluated. In the cost norms it is necessary to closely evaluate the one major aspect of interest income and expenditure, because changes in the income and payment of interests plays a decisive role in the changes of costs as they figure in cost accounting of banks. As to specifying values in the norms, one has to conform in one's measures to local

conditions, and cannot determine them all in the same way. If the norms were set too high or too low, it would be detrimental to inspiring enthusiasm among staff and workers.

2. The system of financial controls. In contrast to the methods used in large and medium enterprises, at the same time the method of turning in all profits to the state was changed to a system of taxation, a system of contracted responsibility for taxes and profits was instituted which gave banking enterprises abundant latitude for activities. As to whether the contract subjects should be of a dispersed or a concentrated nature, it would now seem best, in consideration of the present actual condition of the various specialized banks, to have the two methods combined. The concentrated method would have an entire specialized bank as subject in contracting from the state, the dispersed method would have each basic-level bank and division acting as subject in contracting from its superior bank.

3. When giving the contracting banks or divisions ample latitude for activities, we must eliminate all unscrupulous methods and the tendency to think of nothing but making money. It happened in 1984 that a tendency arose to willfully lower interest rates in order to achieve expanded year end loan base figures. As a result the entire loan business throughout the country got out of control. After the banks have instituted comprehensive contracting, they will not be able to reduce loan interest rates anymore. On the contrary, there might be a possibility that loan interest rates would be willfully raised or loans granted indiscriminately without regard for consequences. It is therefore necessary that the reform of banks by converting them into enterprises must in all business operations which aim at profit still firmly maintain the socialist orientation and must not in their pursuit of profits abandon and disregard the benefits to the overall situation. In that respect, performance evaluation standards are difficult to set up or to play an effective role, and it will be necessary to resort to interferences of policy nature. On the one hand, we shall launch comprehensive competition between financial institutions which shall then endeavor to survive and develop in the competition, while, on the other hand, support will be given to them by necessary macrocontrols.

#### B. The Possibility of Considering Evaluation Norms for Actions With Long-Range Effect:

1. Continuous responsibility system for loan risks. Loan risks that occur during the contract period are, of course, a responsibility of the contracting party. There is a problem only with loan risks that occur beyond the contract period. If the direct or indirect causes can be traced back to the preceding contracting party then the preceding contracting party shall bear direct and indirect

responsibility. In this way the contracting banks or divisions and their leaderships will have to consider in their operations such factors that entail long-range responsibilities.

2. Responsibility for the objectives during the term in office of cadres. From high level to basic level cadres, there should be very clear and specific performance evaluation norms for the duration of their terms of office. These norms should define the authority they should enjoy and the obligations they should fulfill as to the long-range development of the enterprise in question, and the corresponding responsibilities should be formulated in the text of the relevant provisions.

3. Responsibility of bank presidents. This issue is brought up separately because the short-term actions of banks and divisions are to a very large extent determined by the microeconomic policy decisions of the main executive of the bank or division in question. The operational mechanism of the bank president plays a decisive role in everything that goes on in his enterprise. We must intensify the restraints on the operational mechanism of the main executives in the contracting banks or divisions and must determine a set of feasible responsibility measures. For instance, if an action of the contracting bank endangers the overall situation, apart from investigating closely the responsibility of the party concerned, we must also closely investigate the responsibility of the main executive in charge. This responsibility should be effectively merged with the benefit relations. In this way, the executives of banks and divisions must give consideration in their microeconomic policy decisions to the long-range objectives of the overall situation, and, as a consequence, will refrain from acting out of short-term consideration.

4. Medium and long-range developmental plans must be formulated and subjected to evaluation. Apart from fulfilling all profit and tax norms for which they are responsible for the duration of the term of contract, the contracting banks and divisions are also under obligation and responsible for the improvement of the quality of staff and workers and for the improvement of working conditions and related matters. During the contract term, there shall be an improvement in the professional and cultural level of the staff and workers throughout the banking enterprise, and renovation and renewal of equipment must keep pace with the quantitatively increasing business. Working conditions and working environment, living quarters for staff and workers, etc. shall all show certain improvements. Specific evaluation methods shall base the evaluation on the changes in the ratio that expenditures for the mentioned purposes proportionately occupy within the total expenditure (or total profits) and may fix an appropriate ratio with due regard for a variety of relevant factors.

5. Combining economic measures with the legal mechanism. Determination and implementation of every policy must be guaranteed by the legal mechanism. As soon

as the various provisions and measures which make up the contract of the contracting bank or division have been signed by the representative of the legal person and by the government (higher ranking banking authority), that is, as soon as the contract is under the compulsory shield of the law, both parties must unconditionally abide by the contract provisions. Before the end of the contract term, an authoritative organ must, therefore, perform a comprehensive audit and evaluation of the contracting bank or division with regard to the various long-range and short term performance evaluation norms that had applied during the contract term, and must make out an appropriate audit report. Besides this, an appropriate audit and evaluation shall also be made regarding the legal representatives of the contracting bank or division. In case only the short-term performance evaluation norms have been fulfilled but not the long-range performance evaluation norms, economic sanctions shall be imposed against the main executives, and if such actions have caused economic losses, the legal responsibility of the contracting bank or division leadership or of the specific party in question shall be closely investigated.

## FOREIGN TRADE, INVESTMENT

**New Daimler-Benz, AEG Ventures in Inner Mongolia Detailed**  
*36200044 Munich SUEDEUTSCHE ZEITUNG in German 28 Sep 88 p 33*

[Text] [Boxed material: After four years of negotiations, Daimler-Benz AG, Stuttgart, and the machine construction group China North Industries Corporation (NORINCO) have come to an agreement on the licensed assembly of heavy duty Mercedes trucks in Baotou in Inner Mongolia. The contracts for this largest heavy truck industrialization project to date in the People's Republic of China were signed in Beijing in the presence of Chinese Minister President Li Feng and Daimler boss Edzard Reuter. Reuter regards this as the beginning of a "cooperative effort on a broad scale." In the area of passenger cars, Daimler is negotiating intensively for the continuation of assembly production, limited to around 800 vehicles, and the company's subsidiary, General Electricity Company (AEG) AG, Frankfurt, is hoping for a large-scale contract for the construction of the subway system in Shanghai.]

The three agreements which Juergen E. Schrempp, deputy managing director for the company's commercial vehicle branch, signed for Daimler-Benz in the Great Hall of the People, provide for the licensed production of a broad range of heavy truck types of 16-36 tons gross weight. The Chinese mixed-form company will use Kloeckner-Humboldt-Deutz (KHD) engines manufactured under license in Wei Yang and Friedrichshafen Gear Factory (ZF) transmissions from Chongqing for the vehicles which are to be assembled by NORINCO in a new part of its Baotou plant and sold under its own trade name—that is, not as "Mercedes Benz." Schrempp said

that "NORINCO's customers can also have Mercedes-Benz engines on demand." These engines would then come from German production.

The first heavy duty trucks are to be assembled in 1990 from partially dismantled vehicle subassembly units from Daimler-Benz, thereby making the Chinese national production content—including the KHD engines and ZF transmissions—about 25 percent. With the assembly of completely dismantled vehicle subassembly units and a subsequent partial industrialization (that is, the manufacture of cab, axles, and transfer cases in Baotou), the national production content should increase to more than 90 percent. Simultaneously, the output of the plant, which has about 3,600 employees, should rise steadily and reach 6,000 trucks in the 6th year. Company boss Reuter said that within the first five years, Daimler-Benz will deliver 14,700 completely dismantled vehicle subassemblies amounting to sales of DM256 million.

According to statements by Reuter, NORINCO, a machine construction group with about 200 plants and a million employees, will pay for half of the partial deliveries, the licenses, the technical support (by 11 on-site Daimler engineers), and the training of employees locally and in the Federal Republic, with foreign exchange. The other half will come from a goods bartering arrangement. The agreement also provides for the export of the heavy duty trucks from Baotou to specified markets after the national production content has reached 50 percent. NORINCO did not wish to carry out the project in the form of a joint venture. Originally, the Chinese had intended to build a truck combine for the annual production of 150,000 vehicles.

### Only a Beginning

Schrempp views the agreed-upon licensed production in Baotou as only the beginning of a new association. The market for trucks over 16 tons gross weight—presently about 15,000 vehicles per year—will grow in the next five years by a total of 30-40 percent. The People's Republic of China, whose streets, tracks, and construction sites are traversed by approximately 7,000 Mercedes-Benz commercial vehicles, and with an annual turnover volume of about 350,000 commercial vehicles over two tons, approximately 14,000 of which are still being imported at present, belongs to the largest markets in the world. According to Daimler-Benz estimates, if the dynamic growth of the Chinese economy continues (last year the real gross national product grew by 9.4 percent and this year it will increase by an estimated 13 percent), then annual sales of commercial vehicles in the over-2-ton class will grow to 600,000 in the medium term. Reuter evaluated the prospects of increased cooperation between Chinese industry and the Daimler-Benz Company with the observation that "both sides intend to cooperate on a broad basis."

### Increased Passenger Car Assembly

According to Reuter, intensive negotiations are also taking place regarding the assembly of Mercedes-Benz passenger cars in the People's Republic. Vehicles of the new mid-size class are at issue. In early 1985, after nearly two years of negotiations with the First Automobile Works (FAW), Daimler-Benz had concluded an agreement for the assembly of a total of 828 Model 200 and 230E passenger cars. Since assembly production began in late-1987 in Changchun in Jilin Province, over 120 vehicles have been assembled to date from component subassemblies. Some components, such as batteries and tires, are produced by Chinese industry. A phased increase in the Chinese portion of the total production is foreseen through implementation of a transition from production from component subassemblies to assembly from fully disassembled parts.

Additionally, Daimler-Benz is talking about modernizing the largest-produced passenger car in China, the "Red Flag," with a V-8 Mercedes-Benz engine. The FAW in Shanghai, approximately 1,100 km north of Beijing, is the oldest automobile plant in the People's Republic of China. There, in addition to nearly 80,000 trucks annually, 50,000 employees manufacture the "Red Flag," some 1,500 of which have been produced since 1958.

The company's subsidiary, AEG AG, Frankfurt, is hoping to get a major order from China. The city of Shanghai is planning a metro subway system of about 175 km in length with seven lines which it wants to complete in several stages from 1988 to around the year 2000. Invitations to submit tenders for the first stage of construction, which involves a full 14-km stretch and 13 stations (completely underground), were issued internationally. For its operation, the first 16 trains are to be imported completely assembled, and an additional 11 trains are to be imported as skeletons and outfitted for full operation in China.

### GDR As Partner?

More than 10 consortia participated in the bidding for the first construction phase, which is to go into operation in 1993. The German Shanghai Metro Group, under the administrative leadership of AEG and consisting of the AEG, DUEWAG, Siemens, and Waggon Union companies, offered a bid for the electro-mechanical equipment (vehicles, Siemens technology, telecommunications, electrical substations, and station equipment such as escalators and other items). After it and two other bidding consortia from England and France reached the final selection round, the metro authorities and political offices in Shanghai decided to begin contract negotiations with the German consortium in October. There is also close cooperation with construction firms in the GDR on the subway project, which, according to company boss Reuter, would mean an order of DM0.5

billion. "I would not want to exclude the possibility that this could be the prelude to increased consortia formation with the GDR," Reuter said.

### Country's Application to GATT: Resolving Article 35 Problem

40060091 Beijing GUOJI MAOYI [INTERNATIONAL TRADE JOURNAL] in Chinese  
No 9, 30 Sep 88 pp 42-45

[Article by Wang Li 3769 4320: "Options Available to China on Non-Application"]

[Excerpt]

#### 4. The Resumption of China's Contracting Party Status and Non-Application

One legal complication raised by the resumption of China's status as a contracting party to the General Agreement on Tariffs and Trade [GATT] is the issue of non-application.

On the one hand, China's resumption seems to deprive other contracting parties of the right to apply Article 35 to China. Under Article 35, an existing contracting party has the right to apply non-application only at the time when the country concerned becomes a contracting party. The fact that China is applying for resumption suggests that it is already a contracting party to which other contracting parties cannot apply Article 35. This is the interpretation of the U.S., for one. Maybe this is why the U.S. referred to Chinese "re-accession" time and again instead of resumption.

Moreover, since China does not have diplomatic and economic ties with South Africa, Israel, and South Korea, GATT would not apply between China and these three contracting parties at the time of China's resumption. The position of the U.S. is that China cannot invoke Article 35 with regard to these three countries.

There seem to be the following solutions to this problem:

1) As mentioned above, under Article 35, a contracting party may apply non-application to another country when the latter becomes a contracting party to GATT. The resumption of China's status should be regarded as a form of "becoming a contracting party." This is because in China's case, resumption means succession, that is, the Chinese government succeeds to the seat at GATT vacated by the old Chinese government and reviews the old government's relations with other GATT contracting parties. It does not mean the old government resuming its seat and continuing its relations with the contracting parties. Thus China's profoundly significant act of resumption is a form of "becoming a contracting party." China has the right to apply Article 35 to the appropriate contracting parties and vice versa.

2) While Article 35 is a specialized provision on non-application, there are other de facto non-application practices. One example is what happened between the

U.S. and Czechoslovakia. Under U.S. pressure, the contracting parties unanimously adopted a declaration in September 1951 suspending GATT between the U.S. and Czechoslovakia without, however, affecting either country's GATT relations with a third country. In reality, the move was part of the economic blockade imposed by the U.S. on the Soviet-led socialist bloc out of political hostility. But since both the U.S. and Czechoslovakia were original contracting parties to GATT and therefore unable to apply Article 35 to each other, the U.S. made this de facto non-application move. It was against Czechoslovakia's wishes that the declaration was adopted by the contracting parties, and although it repeatedly proposed to negotiate the matter with the U.S., the latter refused to restore GATT relations with Czechoslovakia. It can thus be seen that even though the U.S. could not avail itself of Article 35, it could still use other means to deal with Czechoslovakia and achieve its purpose of non-application. Attempts to eliminate ways in which the U.S. applies non-application through Article 35 will not necessarily work.

3) China should begin tariff negotiations and reciprocate tariff reductions with other countries without delay. Moreover, it should demonstrate its readiness to undertake reciprocal obligations both in word and deed and minimize the circumstances for the invocation of non-application provisions.

4) When China resumes its status at GATT, it should declare that it has the right to apply Article 35 to South Africa, Israel, and South Korea. Israel and South Korea acceded to GATT during the time when relations were suspended between China and GATT after the new Chinese government had replaced the old Chinese government. At the time of resumption, China should be free to decide whether or not to apply GATT to these two countries. When South Africa joined GATT in 1948, GATT was applied to it by the old Chinese government at the time. When the new Chinese government succeeds to the seat of the old government today and resumes its GATT relations with the contracting parties, it is fully entitled under international law to review, examine, affirm, or abolish the international obligations undertaken and all legal relationships entered into by the old Chinese government. When China resumes its place at GATT, therefore, it has the right to declare that GATT does not apply between itself and these three countries.

It has been suggested that before China resumes its place, it might impose a trade embargo against the three countries. A trade embargo is usually declared when two countries are at war or hostile to each other. Such a move has extensive diplomatic repercussions and should be considered carefully in the overall context. In addition, there are countries like Uruguay, Singapore, and Indonesia with which China has no diplomatic ties but to which China should apply GATT. To declare a trade embargo against South Africa, Israel, and South Korea on the grounds that they have no diplomatic relations with China may be a case of breaking a butterfly on the wheel. On balance, a more steady, reasonable, beneficial, and measured approach would be to base ourselves on

GATT provisions and reality and explain clearly the implications of China's resumption as a way of solving the problem of non-application.

**Establishing, Developing Chinese Multinationals**  
*40060014 Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 8, 15 Aug 88 pp 36-39, 55*

[Article by Chen Zhaoshun 7115 2156 7311 of the World Economic Research Institute of the Shanghai Academy of Social Sciences: "Establishing and Developing Chinese Multinationals"]

[Text] The term multinational indicates a company in one country that, in addition to its operations in that country, has or controls manufacturing or service facilities in other countries. Because the monopoly financial groups of developed capitalist countries possess large amounts of surplus capital, their head companies can engage in direct overseas investment, establishing subsidiaries and branches in many countries and regions, which results in a production or sales net. The extensive capital, advanced technology, ever-advancing new product lines, effective sales techniques and huge nature of enterprise organizations of the capitalist multinational corporations create the so-called "competitive superiority of monopolies" and in the domain of competing for international investment, they frequently are the easy winners. However, since the latter half of the 1960's, many developing countries and regions, while bringing in large quantities of foreign exchange and advanced technology, have rapidly developed their own multinationals. They don't have "surplus capital," nor do they have "monopoly competitive advantage," but using applicable technology, they can engage in direct investment in other developing countries. In the Soviet Union, Hungary, Poland, Romania and other Eastern European countries, the domain of international trade has entered into the domain of international investment. According to statistics, all the countries in the world together have about 110,000 multinationals. Those possessing overseas branch companies number approximately 100,000, and they can virtually be found in every country and region. The total overseas direct investment is \$400 billion. Therefore, really studying and investigating the nature of multinationals and whether China should establish them or how to establish multinationals is without doubt of important theoretical and practical significance.

I In recent years the international investment arena has changed. We see a great development of multinationals in developing countries and regions and socialist countries, and this has already attracted the broad attention of Chinese and foreign academics. There is one somewhat unified point of view about this which is that the widespread appearance of international multinationals cannot be explained simply with "surplus capital" and "monopolistic competitive advantage" because developing countries and regions that do not have huge sums of capital or advanced technology can establish multinationals and develop their foreign direct investment.

In 1977 British economist John Dunning developed a diagram to help look into the basic elements of a country's enterprises involved in foreign direct investment. He did a comprehensive analysis of a country's

foreign direct investment goals, conditions and positioning, and with the essential elements study, comparative profits and production positioning studies all together, he put forward a "Comprehensive Theory of International Manufacturing." This theory suggests that a country's enterprises engaging in overseas direct investment are determined by three matching advantages.

**First is the advantage of ownership rights.** This refers to the situation where a country's enterprise has tangible assets or intangible assets that foreign countries do not have or have no way of obtaining, including such elements as technical labor force, capital or natural resources, a concentrated level of manufacturing technology, management capabilities, variation in commodities, and potential and breadth in the market. This advantage is related to multinationals' foreign investment capabilities.

**Second is the advantage of internalization.** This refers to the situation where an enterprise in a country takes its capital overseas, and builds production facilities there. This internalization is of more utility than giving the capital to the other country and can bring in even greater economic profits. This advantage determines the goal and nature of multinationals' foreign direct investment.

**Third is the location advantage.** This refers to the question of where it would be most profitable for an enterprise to operate. If it is more profitable to manufacture overseas, then you just go overseas, invest and manufacture. If it is more profitable to manufacture in Country A than Country B, you go and invest in Country A. If it is more profitable for you to manufacture in area A of Country A than in area B, then you go and invest in that location. In determining the location advantage you must also look at the governmental policies in both the investor's country and the country being invested in, the local production levels there, the situation regarding supply of raw materials, the transportation cost of going into production and completion of goods and the special market characteristics. In general, multinationals want to go invest and manufacture in countries and regions where import substitutions policies are strictly adhered to, thus facilitating local sales of the commodity.

According to Dunning's "Comprehensive International Production Theory," since the scope of enterprises and the investment levels for research and development in each country are different, the ownership rights advantage is unbalanced, and internalization is also different. Because of this, for some the scope of foreign investment is small, while for others it is large. Countries and regions that do not have the above described advantages can, on the other hand, absorb the direct investment of other countries.

We should say that Dunning's "Comprehensive International Production Theory" should be of help in taking a serious look at our industry and developing our advantages, to facilitate bringing in and using foreign investment, while at the same time implementing our own

foreign direct investment. However, this theory looks at multinationals that are in the advantageous production and operating conditions to analyze the basic elements of foreign direct investment. It does not investigate social economic relationships and the substantial changes in the postwar policy environment regarding international economics that affect international investment. So it cannot illuminate the different qualities and development of societal historical conditions in the foreign direct investment of different types of countries. This is to say that this is the greatest limitation of the "Comprehensive International Production Theory."

## II

Multinationals have become a normal phenomenon in today's international economic relationships. We believe that this is not because it is still a type of activity of international monopoly capital. Needless to say, capitalist multinationals of course are a type of international monopoly capital that exceed national boundaries. However, multinational corporations are economic organizations with close relations to the outside that utilize international division of labor and world markets. This is an objective requirement of any country opening to the outside or developing outside economic relations, regardless of whether it is a capitalist or socialist country. Since this is the case there really exists a basic difference between socialist multinationals and capitalist multinationals. The main manifestations of this difference are:

### A. The Goals of Socialist Multinationals' Foreign Investment Are Different From Those of Capitalist Multinationals

Lenin pointed out in regard to the special nature of capitalism that, "A minority of the wealthiest countries that have accumulated large amounts of capital have already occupied monopoly positioning. Large amounts of "surplus capital" have appeared in advanced countries."<sup>1</sup> This "surplus capital" has been exported abroad by capitalist multinationals in order to seek advantageous locations, raw materials, markets for the goods and a sphere of influence, thereby deriving enormous amounts of monopoly profits. For example the American Exxon oil multinational whose subsidiaries and branch companies number more than 300 and are distributed all around the world, realized pure profit in 1986 of \$5.36 billion, which is certainly startling.<sup>2</sup> Socialist multinationals' foreign direct investments are a measure taken not because of surplus capital or from unfavorable domestic investment locations, nor are made to grab investment arena raw materials, selling markets for goods and spheres of influence, or to seek the greatest profit limits. Multinationals operated by socialist countries are there for the purpose of utilizing this form of economic organization that is appropriate for a manufacturing society to obtain certain economic efficiency, to directly and effectively absorb management

knowledge related to the most modern scientific technology from foreign countries, and moreover to transfer this back to domestic industry and accelerate the socialist modernization.

#### **B. The Form and Methods of the Foreign Direct Investments of Socialist Multinationals Is Different From Capitalist Multinationals**

Starting out from the overall tactics regarding foreign direct investment of the head office of capitalist multinationals, they implement an internal allocation price system whereby the expenses of branch organizations or subsidiaries are recorded as income for the domestic head office, and similarly expenses for the head office become income for the subsidiaries. This method of internal transactions makes engaging in speculation and tax evasion more convenient, thereby naturally harming the profits of the local subsidiaries. Socialist multinationals' direct foreign investments on the other hand, mostly make use of joint operations with the host country's government or the joint investment of local enterprises and joint operations engaging in business activities and development of manufacturing based on principles of equal profit sharing.

#### **C. The Effect Achieved by Socialist Multinationals' Direct Investments Is Different From That of Capitalist Multinationals**

Capitalist multinationals, through their subsidiaries around the world or branch organizations, bring capital and technology to their host country's economic development, however the huge investment actually institutes control over the main economic divisions of the host country and its domestic market, leading to economic dependence and even influencing the development of independent self-determination of the citizens in the host country. Socialist multinationals establish economic and technical cooperation with the host country's government or enterprises, making use of an international division of labor to produce beneficial conditions and factors, building each other up, and can strengthen international cooperation and especially South-South dialogue.

### **III**

After the 13th Plenum of the CPC Central Committee, Comrade Zhao Ziyang raised a tentative tactical plan for developing an outward oriented economy in China's coastal areas, which was thoroughly commended. We feel that establishing multinationals would assist in realizing this type of tactical plan. This is because:

#### **A. Establishing Multinationals Is Convenient for Utilizing Foreign Resources**

According to relevant materials, the world's resource reserves and distribution are vastly unbalanced, such that there are almost no countries that have all the resources necessary for their own production. With the

development of China's Four Modernizations, the need for resources is now continuously increasing, and there are some resources that are exhibiting shortages and need to be imported from overseas. And for those resources where the quantity produced worldwide is small and the international market price is unstable, you can never guarantee imports. Therefore, by establishing multinationals and going abroad to invest and build factories, and develop on-site manufacturing, we can eliminate some of the difficulties that exist in China with respect to lack of certain raw materials or insufficient resources, moreover we can lower production costs and strengthen the competitiveness of our products in the international market.

#### **B. Operating Multinationals Facilitates Opening Up Foreign Markets**

For a long time now, Chinese enterprise has relied on the domestic market and overlooked foreign markets. However, opening foreign markets is one important road that must be followed to earn the money of foreigners and to have a foreign exchange income. But right now, competition in world markets is fierce, and protectionism has run wild, so for the majority of products crowded out of markets that are controlled and occupied by foreign monopoly capital, many difficulties exist. Therefore, by developing Chinese multinationals and going abroad to invest in building plants, engaging in on-site manufacturing and selling, we can get around the barriers of tariffs and unrelated tariffs, break through the increasingly developed trade protectionist barriers, reduce and evade trade friction and receive the benefits of having foreign exchange.

#### **C. Establishing Multinationals Can Facilitate Development of External Economic Relationships**

Using foreign capital, bringing in advanced technology and management expertise, cannot be separated from developing economic relationships. Developing Chinese multinationals will assist with the development of good economic relations with the host country. Moreover, establishing joint investment enterprises and jointly operated enterprises is in itself a good form for using foreign capital, and facilitates obtaining the advanced manufacturing techniques and technology and management capabilities from the host country.

Therefore, is there a possibility of China developing multinationals? First, looking at it from the standpoint of international technical structures, the present conditions result in a multilayered technology structure consisting of traditional technology, mid-level technology and high level technology. The majority of developing countries and regions are stuck in low level technological structures, whereas the developed capitalist countries by pursuing the most advanced technology, have created high level technology systems, and it is difficult for them to return to the mid-level technological structures or

traditional technology structures. This provides opportunities for us to take our mid-level technology or special traditional technologies to developing countries to invest in plant building, and to take our higher technology or some advanced technologies to developed capitalist countries to invest and build plants.

Secondly, looking at the world's consumption structures and consumption levels, at present there is great disparity in income for the citizens of different countries, and there are great differences in the consumer structures and consumption levels. The consumption structures and consumption levels in developed countries are fairly high, whereas the consumption structures and consumption levels of developing countries are normally low. With this in mind, under the current conditions in China, where capital is not that plentiful and technology and equipment are not all that advanced, Chinese multinationals ought primarily to go to developing countries to invest and build plants, and we should manufacture and market medium and lower quality products that are suitable for purchasing power in the region. Of course, this does not rule out China's diligently working towards having conditions where in time we will also be able to go to developed capitalist countries to invest in plants, and manufacture and market original and specialized high quality products appropriate for their higher purchasing power.

Finally, looking at China's current conditions, even though our overall technical level is more primitive than developed capitalist countries, it is not lower than the majority of developing countries and regions. In some technical domains it is not only higher than the majority of developing countries and regions, but is also a step higher than developed countries. China has already established a solid industrial base that has a large scope and is quite comprehensive. Textiles, light industry, machinery, metal smelting, chemical industry, pharmaceuticals, food processing and farm machinery enterprises are all quite superior. Many of these traditional industries are looked upon by developed capitalist countries as "sunset industries," and are being gradually reduced or given up. But from the Chinese perspective, these are mature industries. Since these industries are mostly labor intensive, the scope of the manufacturing is not large, the technology and products tend to be standardized, in the areas of production cost and price they are quite competitively strong. They can be considered appropriate industry and the products are demanded widely.

This provides Chinese multinationals with an investment arena around the world. In addition, Chinese multinationals also have an advantage that capitalist multinationals lack. With the support of overseas Chinese, and since many developing countries and regions have over long period of time received selfless assistance and sincere support from China, they trust us, and they want to cooperate with us economically.

From the above discussion, we can say that even though China doesn't have "surplus capital," nor do we have a "pure monopoly advantage," we can make use of our own special advantages and conditions for operating multinationals and operating foreign direct investments that are very complete.

#### IV

There will definitely be difficulties for Chinese multinationals when they face the intense competition of the international market and when they are exposed to the shock of encountering the strong manufacturing and sales pressure of capitalist multinationals. Therefore, it is extremely important that we determine proper tactical direction to develop socialist multinationals.

**First, we must set a tactical direction for developing foreign direct investment.** Since Chinese multinationals will face changeable global conditions and competitors with strengths in all areas, we must diligently research and set development tactics for foreign direct investment. These development tactics, at the very least, should include the following: (1) the tactical goal and tactical responsibilities of foreign direct investment (2) the regions, domain and departments of foreign direct investment (3) the scope of foreign direct investment and the size of the enterprises (4) appropriate technology for foreign direct investment (5) the channel for foreign direct investment. When setting the developing tactical direction we must work from the actual conditions of economic and technological strength, and we must fully predict global, political, economic conditions and developing trends, and carefully understand the economic structure of the host country, the supply conditions for raw materials, the size of market capacity, and economic policies of government departments and management methods. Since China's economic and technological strength are not adequate at present, our capability for manufacturing and marketing is limited. We feel that our foreign direct investments should go primarily after developing countries, and it should be primarily small scale enterprises that are established in foreign countries. Areas that should be foremost are textiles, light industry, food service, etc.

**Secondly, we must place great emphasis on information and consulting work.** In establishing multinationals, we must master sufficient information materials and accurate information in order to determine investment projects, the scope of investment and investment locations. Especially since products rise rapidly and conditions on the international market change in an instant, making it hard for foreign direct investors to comprehend. Therefore, we recommend that the departments responsible for foreign direct investment establish a complete overseas business conditions reference center, making use of personnel stationed abroad and company representatives to strengthen our collection of economic information. And if possible, we could also set up a joint venture information company overseas, or directly hire

an overseas information service company to provide us with reference materials on business dynamics, foreign consumer behavior, commodity types, quality specifications, and policy decisions of multinationals making foreign direct investments.

**Third, we must train and assign a group of specialists in foreign direct investment activities.** We feel that a crucial factor in our establishing multinationals is personnel. It will be very difficult to set up multinationals without people who have grasped the policies, understand the business, and have an energetic spirit. We must have high standards for the personnel setting up multinationals. Not only must they understand the basic theory of foreign trade and investment, they must also be fluent in foreign languages and knowledgeable in professional management before they will be able to master and direct the rules of economic development and perform their work with multinationals well.

China has just started to work on building multinationals, starting out in developing countries of Africa, South America and in developed countries such as America, Switzerland and Austria, where we have started some joint ventures or single investment enterprises. Although the scope of production and marketing is still rather small, but the relevant programs are developing step by step, with industry, architecture, agriculture, business, fish and livestock and food service, and the future for development is wide open.

#### Footnotes

1. *Complete Works of Lenin*, Vol 22 p 233
2. *Fortune Magazine*, 27 April 1987

#### Shanghai Faces Shortage of Export Commodities 40060054a Beijing GUOJI SHANGBAO in Chinese 15 Sep 88 p 1

[Article by Chen Xueyan 7115 1331 3601 and Yao Ximin 1202 6932 2404: "Shanghai Faces Shortage of Export Commodities"]

[Text] It is sufficiently agonizing to state that one can't cook a meal without rice or that even the cleverest housewife can't prepare a meal without food. At present, the shortage of commodities has become the prevalent topic of conversation among Shanghai's foreign trade enterprises. Entrepreneurs discuss the supply of goods and worry about it; they seek a supply everywhere, even to the point where the mayor's office desk is piled high with letters demanding a solution to the goods problem.

It should be recognized that Shanghai's foreign trade situation this year has been satisfactory. From January to July, the export volume through this port totalled 2.7 billion dollars, fulfilling 76 percent of the annual export target handed down from the national government, and 63 percent of the city's export target, a 14.75 percent

increase over the same period last year. However, a strange, contradictory phenomena has emerged—in the first seven months, the volume of exports increased, but the city's total income showed a deficit of tens of thousands of dollars. Eight departments, including those dealing with textiles, silks and minerals, all failed to reach the break-even point. Why is this so? Principally, it is due to a commodity deficiency: enterprises have consumed huge amounts of foreign exchange, and this in turn has had a great influence on enterprises' net income. Indeed, Shanghai's sales of goods this year was far from ideal. Compared with the same time period last year, sales during the first six months of this year showed a 4 percent increase, but fell to 3.3 percent by the end of July. A spokesperson for the Foreign Trade Bureau warned that if this slide continues, the possibility of that becoming a negative number cannot be ruled out. The plants' shortage of silk has caused the shutdown of 1,400 of Shanghai's 1.600 silk looms. Estimates are that during the period of September to November the spinning and weaving system will be short half a month's supply of raw materials, so it appears that one third of those machines could cease turning. Some businesses are facing shortages which endanger their fulfilling their export plan.

Why are goods in such short supply in Shanghai? From the despairing comments of entrepreneurs, reporters have learned that there are many reasons:

- Reforms increased each province and municipality's power of initiative. The traditional materials-producing areas, in order to assure having enough for their own exports, naturally wanted to reduce and even stop supplying raw materials to Shanghai. At the beginning of the year, China's silk import-export companies and textile industry departments planned that more than 2,200 tons of raw silk would be moved into Shanghai's plants from outside provinces and municipalities. The result was that, other than 13 tons allocated by Zhejiang, the other sources came to absolutely nothing.
- Some special economic zones have made wide-ranging increases in the selling price of their raw materials, drawing off a large amount of Shanghai's supply of goods, and making an already severe shortage even worse. But in spite of orders from concerned departments to stop this practice, price increases as high as several tens percent lured some people to make reckless moves. Therefore, during the first seven months of the year, Shanghai's supply of goods for sale increased by only one percent.
- The sharp rise in the price of raw materials has caused fear in some people. To take filature silk as an example, nowadays, after local tax adjustments, the sales price abruptly increased several times. High prices severely restricted the quantity of materials which could be brought in by enterprises which were short of funds.

- There were crop failures in some agricultural commodities, and some industrial equipment is outmoded. There also was an insufficient supply of electricity and coal, and the production rate of labor was substandard. These created a commodities slump.

However, Shanghai's entrepreneurs have not given up because of commodity shortages. Rather, they are exuberantly looking for new outlets.

The entrepreneurs realize that during the current opening to the outside, in this era of reform, the coastal areas' reliance upon the interior for needed raw materials is not the best thing to do. In the long view, they should abide by the central authorities' spirit of "putting both ends on the outside," seeking raw materials from outside while going into the international markets after the products have been processed. The turnover of Shanghai silk by export companies can make up for the raw material shortages, increasing their service as a support for exports and the processing of incoming materials. A cotton company imported 16,000 tons of man-made cotton during the first half of the year, which earned more than 34 million dollars after processing, a 44 percent increase over the same period last year, best in the entire company.

As for the commodity supply problem, Shanghai is making every effort to rectify the relationship between industry and trade, linking the two as well as possible. During the first half of the year, industry and trade set out a commodities plan of 102.6 billion yuan, and during the second half of the year linked up again for a batch of commodities. This can be supported, if priced according to the currently prescribed plan. The two sides, industry and trade, are trying as far as possible to absorb these. However, if there truly are difficulties with this, they will first set a temporary price, then check the general ledger at the end of the year and make a decision for the city that is in accord with the overall plan. For several years, Shanghai has been trying its utmost to develop cross relationships, in order to lay a foundation for supplying commodities, setting up more than 460 enterprises which are jointly managed by industry and trade. This lays a definite foundation for supplying commodities. Recently, city government leadership is again specially acting on behalf of the export system, recognizing that this will be of benefit for assuring commodities and carrying out export contracts, and also enhancing enterprises' economic benefits. Shanghai's textile import-export enterprises which act on behalf of fine textile manufacturing plants have already benefitted from the agent system. Their highest priority is making timely deliveries with quality and quantity, so they do not want to see a drainoff of the supply of goods.

Formerly, there was a succession of enterprises which began operating their own export outlets under the industrial system. This no doubt was of some good in that it was a spur to the economy and the inter-enterprise

competition mechanism. However, when it came to such matters as commodities and the assumption of export obligations, they were frequently in conflict with the Foreign Trade Bureau. At present, the city's concerned departments are considering whether to permit some industrial bureaus to have the rights, responsibilities, authority, and advantages which come with the management of their own exports, that is, planning their own export commodities, their own funding and dealing directly with foreign firms. Since this would make it easier for them to derive the economic benefits that accompany foreign trade, they would also assume responsibility for exporting assignments and foreign exchange quotas handed down from the national government. It is said that this could also partially resolve the difficult problem of foreign trade enterprises' shortage of goods.

Naturally, the shortage of commodities for foreign trade is a common problem nationally, a fundamental resolution of which will require a strong emphasis on development of industrial and agricultural production. At the same time, Shanghai's entrepreneurs also hope that central concerned departments will make some necessary policy and system adjustments: first, "putting both ends to the outside" and "large scale importing and exporting," really the only road for the coastal areas to follow, that is, having their economies oriented to the outside. However, the mechanics of how to make "importing" and "exporting" scientifically and rationally beneficial to the nation, is something that should be thoroughly examined at even higher administrative levels. Every province and municipality imports raw materials blindly and competitively, taking advantage of foreign businesses forcing up commodity prices and leading to the ridiculing statement that "the Chinese people help raise the price of raw materials on the international market." As for exporting, due to the huge disparity in port prices, even for the same place of production, the same commodity, the same quality, the same specifications, each enterprise is demanding lower prices one after another, letting foreign nations opportunistically take advantage of trade loopholes. However, honest businessmen repeatedly complain that they have lost the normal sense of security in their operations. Second, at the same time that each province and municipality is being encouraged to manage their own exports, central departments concerned could ensure that areas which have a good foundation for processing have a guaranteed supply of commodities, so that they can earn more foreign exchange for the nation. Silk products from Shanghai's silk importing and exporting firms have for a long time enjoyed an international reputation for beauty and excellent quality. This year, because of the shortage of filature silk, there has been a shortfall in foreign exchange running into tens of millions of dollars. Economic experts estimate that it will be difficult to completely replenish these losses through reliance on foreign exports. Third, in view of the severe domestic shortage of raw materials, some foreign trade enterprises are using their foreign exchange to buy materials, which results in an inability to complete the quota of earnings originally

assigned to them, and concerned departments may or may not take this into consideration for adjustment.

### More Rational Export-Pricing Policy Proposed for Sichuan

40060035 *Chengdu CAIJING KEXUE [FINANCE AND ECONOMICS]* in Chinese No 8, 31 Aug 88 pp 16-17

[Article by Deng Huansong 6772 1360 2646 of the Sichuan Commodity Price Bureau: "Risks and Countermeasures in Import and Export Price Reform"]

[Text] From the perspective of Sichuan Province's economic structure and external market conditions, pricing risks may arise in the following two areas in Sichuan's participation in international and domestic exchanges:

1. Prices of raw and processed materials that are used to produce export products may rise constantly due to demand pull. Moreover, due to the needs of macroeconomic policy and management, prices of basic consumer goods (such as grain and coal) that are used in Sichuan may not rise as fast as export product prices. Thus, two different price mechanisms operating within the pricing system may cause serious imbalances in price relations.
2. The opening of foreign exchange markets and Sichuan's shortage of foreign exchange have made the problem of foreign exchange market prices being far higher than official prices increasingly outstanding, while domestic supply prices for the agricultural means of production (chemical fertilizer and ground cover) and the industrial means of production which are imported with foreign exchange remain fairly high. Domestic market prices for imported chemical fertilizer (urea) are now generally more than twice as high as international market prices. The results of these two price contradictions are as follows: 1. Large price disparities cause large income disparities within agriculture and between industrial enterprises. Peasants who grow grain and enterprises that produce power have low incomes but, if grain and power production were stopped, Sichuan would lose its basis for taking part in international and domestic exchanges. 2. In order to avoid these income disparities and promote international and domestic market supply and demand balance by forcing the government to constantly raise the prices of raw and processed materials, such as grain and power, would lower the economic results of quite a few enterprises that are unable to digest the raises and have low technical management standards. Inflation would cause some enterprises to go bankrupt, lower the taxes and profits of others, and wreak havoc with workers' wages and government finances. If it became serious, it would affect the stability of Sichuan's economic and political situation.

Sichuan Province's prices are generally a step or two lower than those in coastal zones. Since Sichuan's economy has been opened up to domestic and international markets, there has been an upward spiral in its prices. In order to vigorously develop Sichuan's export commodity

production, promote what is beneficial and abolish what is harmful, and adapt to the needs of changing circumstances, adoption of the following pricing tactics is proposed.

1. In pricing policy, procurement prices of raw materials for export products should be favorable for peasants. Foreign trade management departments with high profits should raise procurement prices and transfer part of their profits to peasants. Moreover, the government must make specific provisions that management departments should take a fixed percentage of risk funds or price regulation funds from the profits or foreign exchange that they earn to use for regulating cyclical production fluctuations and protecting the interests of producers.

2. In distribution policy, based on the principle of considering both macroeconomic and microeconomic results, the necessary planned steps should be taken to rationally distribute raw materials that are in short supply. In handling relations between Sichuan and coastal zones, it is necessary to both ensure Sichuan's basic needs and also assign a fixed percentage of raw materials to use for developing economic cooperation with coastal zones and areas outside of Sichuan and exchanging for needed resources and technology. Within Sichuan, based on the principle of considering both foreign and internal trade while giving priority to exports, the relations between internal and foreign trade and between large and small factories must be handled well. In distributing raw materials that are in short supply, correct pricing policies must be coordinated with the necessary planned steps, while distribution that is carried out entirely according to price competition would certainly disrupt the distribution of resources and cause market disorder.

3. In price management, two centralized management methods should be adopted. The prices of basic raw and processed materials and fuels that are needed mostly for Sichuan's economic growth and self-consumption and those of the major agricultural means of production and basic daily consumer goods should be set by centralized management in order to achieve balance in Sichuan. The aim of this is to put the prices of these commodities in line with enterprise consumption and staff member and worker income. This is one centralized management method. The prices of raw materials that are in short supply and needed both inside and beyond Sichuan and for both internal and foreign trade should also be set by centralized management in order to rationally distribute resources between internal and foreign trade and promote coordinated economic development.

4. In foreign exchange management, there should be a proper ratio between official and market prices. Foreign exchange markets have been opened and foreign exchange prices have become important levers to regulate day-to-day operations in Sichuan. Since Sichuan's foreign exchange markets are in an initial phase, an

integrated policy of support and guidance should be adopted. As to free exchange prices on foreign exchange markets, officials can set guided list prices and state banks can take part in trading on foreign exchange markets in order to regulate foreign exchange market prices. When the problem of official foreign exchange list prices being lower than free exchange prices is temporarily hard to resolve, Sichuan's government must look for and maintain a proper ratio (price difference) between official and market prices. Official list prices must be kept fairly stable, allowed to fluctuate along with free exchange prices, and be suitably regulated to maintain a proper ratio between official and market prices.

## LABOR

### **Wage Structure for Government, Institutions, Enterprises**

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15 Sep 88 p 1

[Article by Zhang Rongda 1728 2837 1129 and Tong Baogan 4547 1405 2704: "Establishing the Three Major Wage Spectrums—An Investigation of the Reform of the Wage System"]

[Text] Recently, the reporters conducted a study of the wage reform issue in Beijing and Shanghai Municipality and Guangdong, Liaoning, Shandong, and Shaanxi Province. Local experts and workers have advanced many ideas and suggestions concerning the reform of the wage system. Generally, they all feel that wage reform must be treated as a systematic project that concerns the national economy and the people's livelihood. Most of all, government organs, institutions, and enterprises must be handled separately, and each should have its own wage structure based on its own characteristics if we are to straighten out the existing chaotic wage system.

Government organs, institutions, and enterprises do different work and serve different purposes. They have different personnel compositions and so they should adopt different methods to allocate wages. Each should go its own way. The old wage system, characterized by centralization, has commingled the unique attributes of government organs, institutions, and enterprises, tying them together and turning the wage relations among the different types of personnel into a tangle. As a result, wages are no longer an incentive function in society, but have become an emergency measure for mitigating the conflict among the different departments and personnel categories.

During the reform of the wage system in recent years, the possibility of establishing three major wage structures has emerged. For example, enterprises are linking total wages with economic performance and are relying on their own resources to implement wage reform. Institutions have begun to assess professional and technical jobs and have set wages accordingly. Government organs

have implemented an occupational structure wage system. These measures have achieved some results. The major problem at present is that the wage system based on one's job has turned into a bureaucratic wage system. The word "cadre" rules government organs, institutions, and enterprises. We now have corresponding provincial- and bureau-level department professors and corresponding prefectural- and municipal-level plant managers, and so on. Wages are allocated according to bureaucratic ranks. We have failed to establish three separate wage structures as planned.

How do we set up three separate wage structures in government organs, institutions, and enterprises, respectively? Theoreticians and people in economics circles feel that the general principle is to keep the three systems separate and independent, and each should restructure its own wage system according to its own characteristics.

### **Enterprises Should Set Up a Financially Independent and Autonomous Wage Program**

Enterprises should restructure their wage system in the following way. The size of an enterprise's wage fund should be determined by its economic performance. The individual worker's income should be determined by the enterprise's profitability and the individual's work contribution. Enterprises' internal wage systems, wage standards, and the form of wage payment need not be the same; instead, there should be variety and versatility as determined by the individual enterprises according to what each can afford. Frontline workers should be paid primarily according to the quantity and quality of work. Piecework, hourly wages, percentage retention and other pay system may be used. Supervisors, engineering and technical personnel, and technicians may be paid according to their job responsibilities and rank. Those doing simple physical work or light physical tasks should be paid moderate wages, and an age limit should be considered. Work which is particularly strenuous and physically demanding should have an optimal age consideration and pay the highest wages. Supervisory, engineering, and technical personnel, primary and secondary school teachers, and medical personnel in enterprises should be paid the wages of enterprise workers—they should not enjoy the benefits both as enterprise workers and as specialists or public servants.

### **Institutions Should Set Up Professional Posts of Different Wage Categories or a Wage Structure for Specialists**

The present "state cadre" concept is too broad. The different categories of personnel in institutions should be separated from the "state cadre" ranks and should be called professional personnel or specialists. We should abolish the customary practice of establishing the wage standards of the various professional posts according to those of the cadres in the government organs. The different special fields should set up occupational classifications and pay system according to their own characteristics. Different fields should not mechanically link

their wage standards to one another. For example, the wages of doctors and teachers may be higher, and the professional age of artistic performers and athletes should be considered, and so on. In institutions, the wage allocation between the professional personnel and the other workers should be segregated and should not be mixed together.

Different institutions may adopt different institutional outlay responsibility methods and wage systems. In the first category, scientific research institutions engaging in basic theoretical research, social welfare type institutions, and primary and secondary schools must rely on state revenue to resolve their wage issue. In the second category, institutes of higher education, and medical and health institutions may practice an institutional fixed outlay contract system, and they should be encouraged to rely on their own superior factors to develop services for which they will be paid to increase salaries and benefits. In the third category, technology development units in the scientific research system, and cultural, arts, news and other departments may adopt a retrogressive outlay contract system and be allowed to freely develop income producing activities and become economically independent, or partially independent. Institutions qualified to adopt enterprise-like management may, like enterprises, be completely decontrolled to take care of their own profits and losses and allocate income as they see fit.

The principal methods to raise the salaries of the different professional personnel are: 1. Raise the starting salaries of college graduates and senior intellectuals. 2. Increase the pay differential between job levels. 3. Raise the maximum wage of the various categories of specialized personnel. 4. Generously reward people who have made major, valuable discoveries or inventions.

#### **The State Organs Should Set Up a Wage Structure Which Links Civil Service Grades to Job Responsibilities**

Learning from experiences abroad, the wages of China's civil servants in the government organs on average can be slightly higher than the wages of enterprise workers. The civil service system should be characteristically small but efficient. Government workers must uphold the standard of honesty and dedication, and they should earn a fairly "comfortable" living. We should not adopt a "reorganization" method to turn all existing state organ personnel into state employees. We should streamline state organs, reduce personnel, set staff and personnel quotas, and on that basis, retain selected government workers by conducting stringent examination and assessment. Meanwhile, we should recruit government workers from the general public, and make the civil service system competitive.

We can refer to the wage program set up by organs in the Shenzhen SEZ to determine our civil service wage standards. A system which is characterized by "many salary grades but small grade differentials" is preferred. This

means that civil service should be divided into many posts, and for each post there are many salary grades, but the pay difference between grades is small. This method helps to increase the difference between posts and makes periodic promotion and salary increases easier to implement. Government workers should be paid extra for performing certain duties, and upon completion of those duties, they should revert to their original pay status. This helps to reconcile the conflict between duties and qualifications of the workers in the government organs and avoid the present situation in which it is difficult to get a pay raise unless one becomes an official.

## **POPULATION**

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[Article by Tian Xueyuan 3944 7185 0626 of the Institute of Population, the Academy of Social Sciences of China, revised in May 1988: "The Factor of Population in the Economic Development Strategy for the Coastal Areas"]

[Text] In the economic development of the coastal areas, apart from a better infrastructure, convenient transportation, and greater strength in scientific and technological development, superiority in population is also an asset. It is an important guarantee to realize the economic development strategy in the coastal areas.

### **Size of Population**

The population factor favorable for the realization of the economic development strategy in the coastal areas lies first in the large size of the population there, which ensures rich manpower resources. Moreover, the proportion of production-age people in the population will be on the rise for the next two or three decades, and the societal burden will be relatively light. The population of continental China in 1986 is 1.05721 billion, of which 0.43526 billion, or 41.17 percent, is found in the 11 provinces, autonomous regions, and municipalities directly under the central government along the coastline, whose area accounts for only 13.5 percent of the nation's total area. The coastal areas are more densely populated than elsewhere in China. Also, in the process of steady population decline in China since the mid-1970s, the decline in the coastal areas has been more impressive and the time span has been longer. Therefore a certain disparity has emerged in the age structure between the coastal population and the inland population. At present, those aged 0-14 make up 28.68 percent of the total population of China, the corresponding figure for the coastal areas is 26.10 percent (data on Fujian province is temporarily lacking), which is 2.58 percentage points lower than the national figure. The adult population (age 15-59) accounts for 62.88 percent of the total population. With the exception of individual provinces and municipalities, the coastal population of

adults are in general higher than the national figure. Among them, the Beijing figure is as high as 69.29 percent; other figures are 68.51 percent for Shanghai, 67.59 percent for Tianjin, 67.54 percent for Liaoning, 67.52 percent for Jiangsu, and 66.10 percent for Zhejiang.<sup>1</sup> Although the percentage of old people aged 60 or above in the coastal areas is rising, the rate of increase of old people is still lower than that of adolescents. Hence, the number of adolescents and old people combined and the proportion in the entire population, i.e. the population group that depends on the support of the adult population, tends to decrease. This tendency will continue to the end of this century. In most provinces and municipalities it will continue through 2010-2020. A "golden age" will appear during which the production age population will be of a higher percentage than the adolescent and aged population.

How should one look at such change in the age structure of the population? In one aspect, the development of the population and labor force is faster than that of the economy. Therefore, it will be better for the production age group not to expand; otherwise, there will be more pressure on employment and problems and difficulties in economic development. In another aspect, the continuous growth of the production age group is determined by the present population age composition. In the aspect of economic development, a high percentage of the production age group in the entire population means a lower proportion of the adolescents and aged in the population needs support, and the societal burden is lower. This can only be a favorable opportunity. This is an asset for the population of China, especially along the coast. In most developed countries today, the population is aging and the society's burden is increasing. In some countries, the proportion of the production age group has ceased to grow and the labor force is more expensive than before due to a shortage of labor. In most developing nations, high fertility rates have led to an excessively high proportion of the adolescent age group and a heavy social burden. The proportion of their production age group is not high either. China is in between the two. On the one hand, an abundant supply of labor can prevent a drastic increase of costs. It ensures the assets of rich population and labor resources and low costs. On the other hand, since the production age group will only expand in the next two to three decades, the state of low labor costs and light burden will continue for an extended period of time, and this gives China a more favorable opposition than the two groups of countries mentioned.

Another asset of the coastal population lies in its connections with the overseas Chinese. As we all know, most overseas Chinese and Hong Kong and Macao citizens are natives of coastal areas of China, or their ancestors were. Guangdong and Fujian Provinces are typical of this. The number of overseas Chinese, Chinese with foreign citizenship, and Hong Kong and Macao citizens with Guangdong ancestors is estimated to be 24 million, which is 60 percent of their total. Those with ancestors

from the triangular region in south Fujian number about 4 million.<sup>2</sup> Overall, over 90 percent of the Chinese who have migrated from China have their roots in the coastal areas. By the same token, most overseas Chinese returning from abroad, families of overseas Chinese, and relatives of Hong Kong and Macao settle in coastal areas. Available data show that in Guangdong alone, such people number more than 20 million, which account for one-third of the province's population. In some places the proportion is as high as one-half of the local population.

Our overseas Chinese, Chinese with foreign citizenship, and Hong Kong and Macao citizens have a glorious tradition of patriotism. They contribute a great deal to the development of the nation and its people by founding schools, enterprises, and introducing science and technology into China. They have played a major role in our modernization movement in recent years. In our implementation of the economic development strategy for the coastal areas, we have to actively attract foreign capital and develop production of raw materials and enterprises that manufacture export-oriented products with imported raw materials. This gives patriotic Chinese abroad an opportunity to contribute to their motherland as well as those in their industrial and business sectors an opportunity to invest in and transfer technology to China. They can benefit from their involvement in sole proprietorship, joint ventures, and commodity trade in China. Large numbers of returned Chinese, families of overseas Chinese, and relatives of Hong Kong and Macao citizens in our coastal areas maintain their natural overseas connections. They play an active role in the development of the export-oriented economy by being a party in joint ventures and by making use of their connections to become agents and links of communications.

The above-mentioned favorable factors in terms of the size of the coastal population show the unique assets of coastal regions in their development of an export-oriented economy. These assets give strong support to the economic development strategy for our coastal areas.

However, we must also realize that as the population and production age group of the coastal areas are growing fast, pressure on employment will continue to increase. Therefore, a critical task confronting the economic development of the coastal areas is the maintenance of a continuously rising labor productivity while solving the problem of employment for an ever increasing production age population.

An equally imperative task is, with economic development and the population increase, the conflict between dense population and scarcity of land along the coastal areas will be more acute than before. This is particularly serious in the Zhujiang delta, Changjiang delta, Shandong peninsula, Liaodong peninsula, Beijing-Tianjin-Tangshan area, and the south Fujian triangle, which are more developed economically. The population density

of the economic centers in these places may be more than 10 times higher than that of the nation. They are top population density areas by Chinese or even world standards. In some places, the population density has reached or will reach saturation. However, with the exception of Hainan province, the priority areas of coastal economic development strategy are these two delta regions, two peninsulas, and two coastal regions. In these places, industrial and urban development has caused the cultivable land per capita to drop drastically. The implementation of the economic development strategy in the coastal areas will lead to expansion of urban industries and commerce, infrastructure, and communications and transportation. With the emergence of the end of re-industrialization, more land will be in demand, and cultivable land will further shrink. From the present age structure of our population, we can see that there will be a baby boom in the next 10 years. This decrease in one aspect and increase in another determines the further drop of cultivable land per capita. At present, cultivable land in the coastal areas has become a scarcity. To accommodate this situation, an important thing to remember in the economic development strategy of the coastal areas is to try as much as possible to minimize the encroachment upon cultivable land, so as to check the drastic shrinkage of cultivable land.

### Quality of the Population

Population quality refers to the educational and health quality of the population. Broadly speaking, it also includes the moral quality of the population. In general, the educational and health quality of the Chinese population is still not high enough. However, in comparison that of the coastal areas is higher than that in the interior. For example, in 1987 those with university educations made up 0.88 percent of the population in China. Apart from individual provinces and regions, the coastal areas had higher percentages. The figures were 7.09 percent for Beijing, 5.63 percent for Shanghai, 3.31 percent for Tianjin, 1.57 percent for Liaoning, and 1.05 percent for Jiangsu. On the contrary, illiterates and semi-illiterates aged 12 or above made up 20.59 percent of the entire Chinese population. The corresponding figure for Liaoning, Beijing, Tianjin, Shanghai, and Guangdong has dropped to below 15 percent.<sup>3</sup> The figures for the other areas were more or less the same as the national figure. The above illustrates that the coastal population is of a higher educational level, qualified personnel are more concentrated along the coast, and the ability to develop science and technology is stronger there.

However, we need to further investigate ways to assess the educational quality of the population, especially in terms of how to set up assessment criteria. In our censuses and population registrations, we have always been using six categories to assess the educational standard of the population, namely, completion of university education, university attendance, upper secondary, lower secondary, primary, illiterate or almost illiterate.

Sometimes the first two categories are combined as population with university education, and the last category is seen as illiterate or semi-illiterate. Therefore, this method is not meticulous enough and is suitable only for comparison of the same category rather than the average educational quality of the population between one region and another. It cannot tell with precision the general educational quality of the population in a region. Also, different criteria may give contradictory findings about the educational quality of a population. Take Guangdong as an example: in 1987, the percentage of the Guangdong population with a university education was lower than the national figure, but the percentage of illiterates and semi-illiterates was also lower than the national figure by 5.75 percent. Therefore it is hard to judge whether the educational standard of the Guangdong population is higher or lower than the national standard. Moreover, the development of the national economy demands both specialized personnel with higher educations as well as large numbers of skilled workers and trained laborers who have received secondary education or technical education at the secondary level. This point can be proved by the economic take-off of Japan in the 1950s and 1960s. In the 22 years between 1951 and 1973, while actively developing higher education and expanding the number of university graduates by 15 times, Japan also made upper secondary education compulsory and trained large numbers of skilled workers. In this way, Japan developed its own technology on the basis of effective absorption of advanced technology from abroad. In less than 20 years, Japan was able to eliminate the technological gap of about 30 years between it and the developed nations of the West. Therefore, in our assessment of the educational quality of our population, it is not enough just to pay attention to the percentages of those with university education and those without education. We must also look at those with secondary and primary school educations. Also, we should arrive at an index that can reflect the average educational attainment of the population so that it is simplified and comparable. It can be called the population educational index and should reflect the population's average number of years of education received. Based on the reality in China, the average number of years needed to complete a university education or to be attending university is 16, and the average number of years needed to attain an upper secondary education is 11. For lower secondary it is 8, for primary it is 4, and for illiteracy or near illiteracy it is 0.25. If calculated this way, the educational index of the national population for 1987 is 4.65. Along the coast, the index is 7.12 for Beijing, 6.93 for Shanghai, 6.43 for Tianjin, 5.82 for Liaoning, 4.91 for Jiangsu, 4.83 for Hebei, 4.76 for Guangdong, and 4.71 for Zhejiang. These figures are all higher than the national figure in different degrees. Only the Shandong, Guangxi, and Fujian figures are slightly lower than the national figure, but they are still far higher than those of other places, such as 1.47 for Tibet, 3.13 for Qinghai, 3.27 for Yunnan, and 3.51 for Guizhou. I believe that the indexes calculated in this way can reflect the level of educational attainment of the population in

each place. However, I must also point out that in the top category, the number of years may vary by a few years since included in the same category are those who have completed university education, those who are still attending university, those in senior years, and those in junior years of university. Also, the education system has gone through a lot of changes over the years, and there has been the development of forms of adult education such as correspondence programs and television university, so that the numbers of years required to attain the same level of education vary and the coefficient of the average number of years of schooling for each category can only be approximate. This is why I call the it educational index of the population rather than the average number of years of schooling of the total population. Since the same constant coefficient is used in the calculation of the same level of educational attainment, this index is very comparable and is representative of the educational quality of the entire population.

The health of the coastal population is also better, as manifested by lower infant mortality rates and longer life expectancy. The infant mortality rates of Beijing, Tianjin, and Shanghai had dropped from 65.7 percent, 46.8 percent, and 37.7 percent respectively in 1952 to 10.0 percent, 11.7 percent, and 12.6 percent respectively in 1985, which are close to the level of developed nations.<sup>4</sup> Life expectancy has been extended a great deal, especially in terms of the percentage of those aged 80 or above in the population aged 60 or above. According to the 1982 census, the average national longevity rate was 6.6 percent. In the coastal areas, apart from Hebei whose rate was 6.5 percent, the rates were generally higher than the national figure. The rates of Zhejiang, Guangdong, Shanghai, Liaoning, Jiangsu, Guangxi, Shandong, and Beijing were all above 7.1 percent. Of the nine provinces, municipalities, or regions with the highest life expectancy in China, eight were found in the coastal areas.<sup>5</sup> Generally speaking, areas with better-educated population also have healthier population since the prerequisites for both, such as the development of science, education, culture, medicine, and sanitation, are the same. They are all built upon a certain degree of economic development. With their more developed economy, the coastal areas can ensure a better-educated and healthier population and labor force, which is an important factor in attracting investment and technology. The quality of the population and labor force is a reliable manpower guarantee in the implementation of the economic development strategy for the coastal areas.

The major problem in the educational quality of the coastal population lies in the great disparity between one area and another. Using the educational index of the population as a yardstick, eight provinces and municipalities, namely, Beijing, Shanghai, Tianjin, Liaoning, Jiangsu, Hebei, Guangdong, and Zhejiang, are clearly higher than the national index, whereas three provinces or regions, namely, Shandong, Guangxi, and Fujian, are clearly lower than the national average. The Beijing index is 7.1, which is 1.7 times higher than the Fujian

figure of 4.1, which is the lowest in the coastal areas. The Shanghai index is 6.9, which is 1.6 times higher than the Guangxi index of 4.4. If the comparison is by category, the contrast is even more striking. In the proportion of those with university education per 100,000 people, the Beijing figure is higher than the Shandong figure by 13.7 times, and the Liaoning figure is higher than the Guangxi figure by 3.7 times. Of the proportion of illiterates and semi-illiterates per 100,000 people, the Shandong figure is higher than the Beijing figure by 2.1 times, the Guangxi figure is 1.5 times of the Liaoning figure. Broadly speaking, apart from Hainan, the 11 coastal provinces, municipalities, and regions can be divided into three groups. Beijing, Shanghai, Tianjin, and Liaoning belong to the high group, with their educational index higher than 5.8, which is 1.2 percent higher than the national average of 4.6. Jiangsu, Hebei, Guangdong, and Zhejiang belong to the middle group, with an index that is slightly higher than the national average. Shandong, Guangxi, and Fujian belong to the low group, with a lower educational index than the national figure. We should also recognize that even with the same province, municipality, or region, the quality of people varies. For example, although Fujian has a low index, the quality of the population of towns on the coastline such as Xiamen, Quanzhou, Putian, and Fuzhou is quite high. It is high both by Fujian and national standards. Similarly, the educational index of the Shandong population is lower than the national index, but that of Jiaodong peninsula is higher than the national index. Therefore, while recognizing that the coastal population is better educated, we must do some concrete analysis. High and low are relative concepts. Within the high areas there are low areas, and vice versa.

Since the educational quality of the coastal population is not uniform, while our economic development strategy focuses on the combined labor-intensive and labor and knowledge intensive industries, we must not apply the same approach to all areas indiscriminately. For provinces and municipalities with a better-educated population and better-educated areas within less-educated provinces and regions, while the emphasis is on the development of labor-intensive industries, the local context should also be taken into consideration. More effort should be devoted to the development of labor combined with knowledge, technology, and capital intensive industries, and some effort should be devoted to the development of a small amount of purely knowledge-intensive, technology-intensive, and capital-intensive industries. We must not just emphasize the development of labor-intensive industries and ignore the rest, otherwise we will take the road of "getting on the job with local methods" again. The development of the electronic street in Zhongguancun, Beijing proves that it is definitely possible to develop high-tech industries where there is a high concentration of qualified personnel. On the other hand, less-educated provinces and regions and less-educated areas within better-educated provinces and municipalities must adhere to the road of developing labor-intensive industries and make full use of their

abundant labor supply. At the same time, they must remember that we are talking about labor-intensive industries in the 1980s, which must be combined with modern science and technology and built on the basis of trained laborers and scientific management. The mistake of relying solely on large numbers of people must not be committed again. This means in the overall layout of our economic development, the difference in educational quality of the areas should be taken into consideration alongside other factors, so that labor-intensive industries, labor combined with knowledge, technology, and capital intensive industries, and small amounts of knowledge-intensive, technology-intensive, and capital-intensive industries are distributed by area and by level.

### The Population Structure

The population composition can be discussed in the narrow sense and broad sense. The narrow sense refers to the age and sex structure, i.e. the natural structure, of the population. The broad sense refers to the natural structure as well as the economic and social structure. Here we discuss mainly the impact and restraints of the economic structure of the coastal population on the economic development strategy of the coastal areas.

The coastal areas are more advanced in terms of the rural-urban composition and occupational composition of their population, which are results of their socioeconomic development. In general, the more developed the economy, the higher the proportion of the urban population. For example, in 1987, urban population made up 43 percent of the population of the world, 72 percent of the population of developed nations, and 34 percent of the population of developing nations. At the same time, the higher the level of urbanization of the population, the lower the proportion of the population in agricultural labor. In 1987, 74 percent of the American population was urban and only 3 percent was directly involved in agricultural labor.<sup>6</sup> On the other hand, once the rural-urban composition and occupational composition of the population are formed, the functions and rippling effects of a city as the center and leader of a specific area will be felt in the development of the area economy, transportation, trade, finance, and information. The effect of the population composition will be manifested too.

These factors will ensure a relatively stable framework of economic operation and restrain and affect the economic development of the area. At present, the level of urbanization of the Chinese population is not adequate. According to statistics, in 1987, 37.1 percent of it was urban. However, it varies according to the region. In general, urbanization was low in the west and high in the east of China. For example, less than 20 percent of the Tibetan and Qinghai population was urban, compared with 20-30 percent in Yunnan, Guansu, and Guizhou. The figure was 43.7 percent along the southeastern seaboard, which was 6.6 percent higher than the national figure. For Shanghai, Tianjin, Beijing, and Liaoning the

figure was even above 60 percent.<sup>7</sup> Related to urbanization is that apart from Guangxi, Hebei, and Shandong, there is the characteristic of "one low and three highs" in the occupational structure of the coastal population. "One low" refers to the low proportion of laborers in agriculture, forestry, animal husbandry, and fisheries. In 1986, laborers in agriculture, forestry, animal husbandry, and fisheries accounted for 56.3 percent of the nation's population aged 15 and above. Comparable figures are 18.1 percent for Shanghai, 18.8 percent for Beijing, 21.9 percent for Tianjin, 29.9 percent for Liaoning, 46.0 percent for Zhejiang, 49.7 percent for Fujian, 51.5 percent for Jiangsu, and 55.5 percent for Guangdong, which are all lower than the national figure in varying degrees. "Three highs" refer first to the high proportion of production workers, transportation workers, and related workers. In 1986, the national percentage of these three groups was 12.5 percent. Comparable figures are more than 30 percent for Beijing, Tianjin, and Shanghai, more than 20 percent for Liaoning and Zhejiang, close to 20 percent for Jiangsu, and more or less the same as the national percentage for the other parts of the coastal areas. Second, "three highs" refer to the high proportion of specialized personnel in different fields in the population. These people made up 4 percent of the national population in 1986. Comparable figures are more than 8 percent for Beijing and Shanghai, 7.7 percent for Tianjin, and 5.7 percent for Liaoning. The Jiangsu figure is slightly higher than the national one. The other areas are slightly lower than the national level. Third, "three highs" refer to the high proportion of the population in commerce. In 1986 the national figure for this was 1.4 percent. Comparable figures are more than 2.4 percent for Beijing, Tianjin, Shanghai, and Liaoning; and more than 2.1 percent for Guangdong. The figures for the rest of the areas are more or less the same as the national level.<sup>8</sup> The occupational structure characterized by "one low and three highs" signifies the progress of the coastal areas toward a modern occupational structure. Combined with a relatively high level of urbanization, it enables the participation of the coastal areas in international competition.

Closely related to the relatively advanced rural-urban composition and occupational structure of the coastal population are the ever increasing floating population and migratory population, which has led to coastal characteristics in the pattern of population flow and distribution by area. For many years, the settlement and employment of the population were rather stable as a result of the undeveloped commodity economy and an enclosed economic system. This served to fix the economy which was already rigid enough and gravely hindered economic development. Reform and opening up have broken through this rigid state. On the one hand, the reform of the rural economic system has greatly liberated the productive forces, and the rise of the agricultural labor productivity has created conditions for the transformation of surplus agricultural labor. On the other hand, the reform of the urban economic system has

promoted the development of various forms of ownership and various kinds of management of commerce and industry in cities and towns. There have been expanded opportunities and places in towns and cities for the surplus agricultural labor so that the floating and migratory populations have increased tremendously. Especially since 1984, restriction on rural dwellers' entry into towns has generally been relaxed. They have been allowed to bring with them their own grain ration and to take part in industries, commerce, and various service activities. Therefore, there is a large floating population which "leaves its native village but still belongs to it" and a large migratory population which "leave its native village and no longer belongs to it." According to research data, in Zhejiang Province more than two million peasants have left their villages to work in industries and commerce. In Wenzhou alone 300,000 people have done so. The floating population of Beijing and Shanghai is one million each. For several years, the number of construction workers in Beijing who have come from elsewhere has remained in the region of 100,000. They have become a competitive construction team. Two points merit concern in the flow and migration of the coastal population. First, the building of the special economic zone has attracted a large floating population and a large migratory population. For example, more than 200,000 people have gone to Shenzhen to take part in various items of construction and service. The daily floating population in Xiamen, which has a population of some 300,000 only, is 60,000. Second, in the past, the outgoing population was larger than the incoming population in the coastal areas. Now the situation has reversed. The incoming population tends to exceed the outgoing one. This shows that with the reform, opening up, and reinvigoration of the economy, the market mechanism is beginning to effect the regulation of the population and the labor force. New channels have been explored for people to use their skills.

The accelerated urbanization of the coastal population and the drastic increase of floating and migratory populations have also brought new problems which involve the overall development of the coastal economy. Some of these problems are rather serious, others have just surfaced. Since the development of the export-oriented economy along the coastal areas will attract more floating and migratory populations, it will boost the speed of transfer of rural population to towns and cities. In the absence of an effective mechanism to regulate such a flow, a certain number of people will just blindly float in or migrate to towns and cities, which will lead to two things. First, too many peasants may abandon agriculture for industry and commerce. This will affect the use of and input into the land and result in sluggishness in agriculture, an inadequate supply of certain agricultural products and by-products, and more acute tension and price fluctuations of the market. In towns and cities, the labor service market may be larger than the demand. The advantage is labor costs will remain low, which is an asset. However, that is also where the major disadvantage is. It will be difficult for us to get rid of the cycle of

"low wages and high employment—inability to raise the labor productivity—low wages and high employment." We will not be able to enter the benign cycle of of "higher incomes and reasonable employment—quick rise of labor productivity" without encountering major difficulties. Also, the large flow of floating and migratory populations to cities will accelerate the urbanization of the population. Urban housing, transportation, and the supply of non-staple food which are already tight in the cities will be even more problematic, and urban management will be more difficult. Ultimately, they will affect the results of the implementation of economic development strategy in the coastal areas. One of the major issues that demands serious attention in the economic development strategy of the coastal areas is the need to examine the effect of the coastal floating and migratory populations on the fast urbanization of the population and retain the advantages and eliminate the disadvantages. It goes without saying that we must not adopt the method of "blocking" or "checking" people which we did in the past by pushing the floating and migratory populations back to rural areas. This will be unfavorable to the normal development of the urbanization of the population and of the rural and urban commodity economy. Neither will it be approved by the economic development strategy for the coastal areas which aims at reinvigorating the economy. Least of all should we leave the problem of floating and migratory populations alone, or even "eliminate the urban household" and let peasants enter the cities freely. This will disrupt the normal order of the cities and create many obstacles to the thorough implementation of the economic development strategy of the coastal areas. In the face of the accelerated urbanization of the population and the ever increasing floating and migratory populations, the overall principle of the economic development strategy of the coastal areas should be to make use of the favorable side of the flow of the population and labor force and avoid and restrict the unfavorable side. We must grasp the objective pattern of the population flow and urbanization. Under the prerequisite of promoting population flow, planned control and management should be strengthened and concrete policies should be formulated for different scopes of towns and cities.

#### Footnotes

1. Calculated from "Main Data From a Random Sampling Survey of One Percent of the Population of China in 1987," Zhongguo Tongji Chubanshe, 1988 edition
2. "China Population Yearbook 1986," Shehui Kexue Wenxian Chubanshe, 1987 edition, pp 268, 252
3. See "Main Data From a Random Sampling Survey of One Percent of the Population of China in 1987"
4. See "Social Statistics of China, 1987," Zhongguo Tongji Chubanshe, 1987 edition

5. See "China Statistical Yearbook 1987," Zhongguo Tongji Chubanshe, 1987 edition
6. See "The 1987 World Population in Statistical Tables" in English, U.S. Population Enquiries Bureau
7. See "Main Data from a Random Sampling of One Percent of the Population of China in 1987"
8. See "China Statistical Yearbook 1987"

## AGRICULTURE

### Results of Rural Household Survey Concerning Reform

40060001 Beijing *NONGYE JINGJI WENTI*  
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[Article by the Rural Survey Office of the Rural Policy Research Center: "Rural Reform and Peasants: An Interview Survey of More than 10,000 Peasants"—Source note: Li Tianzi [2621 1131 6327], Yu Zhan [0151 1455], Sun Zhonghua [1327 0022 5478], Liu Fuhe [0491 4395 0678], Wang Qiang [3769 1730], and Jia Cuihua [6328 4733 5478] participated in the designing of the questionnaire and in data collection and processing. Sun Zhonghua wrote the article. Zhang Xiaojun [1728 2699 6511] participated in the designing of the questionnaire. And Yuan Chongfa [5913 1504 3127] suggested revisions to the first draft of the questionnaire.]

[Text]

### Introduction

A. China's rural economic reform has entered its 10th year. Getting as good a purchase as possible on peasant attitudes and social and economic behavior certainly will help us advance rural reform. Therefore, beginning in January, we collaborated with rural work departments in each province, autonomous region and municipality (except Tibet) to conduct an interview survey of 10,938 peasant households in 293 rural fixed observation points (villages).

B. The 293 observation points were established in 1986 in accordance with the principle of typological sampling. 21 percent of the villages selected as observation points are well to do, 53 percent average and 26 percent backward. Households were selected for interview at random, at a sampling ratio of about 15 percent. The questionnaires were completed anonymously by household heads.

C. The basic sociological conditions of the 10,938 household heads interviewed were as follows.

Age composition. 18.9 percent of the respondents were 30 years of age or less, 34.4 percent ranged between 31 and 40, 15.1 percent were 41-50, 15.1 percent were 51-60, and 6.4 percent were 61 or older. The mean age was 41.

Profile of actual educational attainment. Illiterates or barely literates comprised 17.2 percent of the respondents, 40.9 percent had primary school educations, 32.1 percent had junior middle school educations, and 9.8 percent had senior middle school educations and above.

Political involvement. 16 percent of the respondents were CPC members, 6.4 percent were members of the Communist Youth League, and 77.6 percent were not members of the party or the league. 9.4 percent occupied positions in village party branches, village residents' committees or village cooperative economic teams.

Primary household occupation. 83.2 percent of the households interviewed engaged primarily in cultivation; 2.8 percent engaged primarily in forestry, animal husbandry or fishery; and 14 percent engaged primarily in secondary or tertiary industries.

### I. Improvement in Standards of Living and Contributing Factors

A. Changes that have occurred in peasant household food, clothing, housing, daily necessities and fuel supply. In the area of food, 32.2 percent of the households cited a "marked improvement," 61.8 percent an "improvement," 5.1 percent "no change," 0.7 percent a "decline," and 0.2 percent a "marked decline." As for clothing, 24.4 percent of the households cited a "marked improvement," 66.6 percent an "improvement," 8.1 percent "no change," 0.8 percent a "decline," and 0.1 percent a "marked decline." For housing, 25.8 percent of the households cited a "marked improvement," 37.4 percent an "improvement," 35.2 percent "no change," 1.2 percent a "decline," and 1.4 percent a "marked decline." For daily necessities, 18.6 percent of the households cited a "marked improvement," 63.4 percent an "improvement," 16.9 percent "no change," 0.9 percent a "decline," and 0.2 percent a "marked decline." For fuel, 15.5 percent of the households cited a "marked improvement," 40.2 percent an "improvement," 39.1 percent "no change," 3.5 percent a "decline," 2.7 percent a "marked decline."

B. Causes of the improvement in standards in living. Summarizing the results of the survey, it is apparent that the program of contracting land out to households and the expansion in the range of production opportunities available to peasants and the improvement in science and technology that have resulted from this program are the basic factors behind the improvement in the rural economy and in peasant standards of living that have occurred since rural reform was first implemented. In addition, the hikes in procurement prices for agricultural

produce carried out by the state also contributed to these improvements. The 10 answers provided in the questionnaire, their cumulative frequency and their ranking

are listed in the following table (respondents were asked to choose three of these answers and to rank them in order of importance).

**Factors Peasants Attribute to Improvement in Their Living Standards**

Factor	Cumulative Frequency (%)	Rank
The contracting of land over to households has given us incentive to work	92.8	1
The range of occupational opportunities has expanded, so we have diversified	54.8	2
Scientific and technological improvement	40.2	3
Prices for agricultural and sideline produce have risen	28.7	4
The household labor force increased	27.7	5
"Old Heaven" pitched in and gave us good rain	26.9	6
Our income from collectively run operations increased because the collective economy developed	13.5	7
Household income rose because of the help of relatives and friends	10.4	8
State relief assistance increased	1.3	10
Other	3.8	9

C. The decline in the living standards of a small number of households and the reasons for that. Of all the households surveyed, 409 households (3.9 percent of the total) reported a decline in their living standards since reform. The reasons cited were as follows: 95 households (23.2 percent of the households reporting a decline) said they "lacked experience in production," 90 (22 percent) said they had experienced a "decline in household labor," 71 (17.4 percent) said they "lacked non-cultivation employment opportunities," 49 (12 percent) said they "suffered heavy economic burdens due to illness in the family," 41 (10 percent) cited "increase in family size," and 63 (15.4) percent cited other factors. We ought to pay close attention to the factors affecting these families' ability to prosper and proceed from practical reality in giving the families support and assistance.

D. Profile of living standards. The survey indicates that, although peasant living standards have shown marked improvement since reform was instituted, the base figures were very low, most peasant households have only recently resolved their basic needs of food and clothing, and few households have become well to do. Of the households surveyed 56.2 percent said they were "not well off at all, only recently having resolved the basic needs of food and clothing," 34.2 percent reported being "fairly well off," 5.6 percent claimed to be "well-to-do," and 4 percent said they "still do not have enough food and clothing."

E. Peasant expectations regarding future change in their living standards. Responses to the question "over the next 2-3 years, what changes do you expect will occur in

your family's living standard?" ranged as follows. 53.3 percent of the households said "it will continue to improve," 17.6 percent expected "no change," 2.5 percent expected a "decline," and 26.6 percent answered "not sure."

F. Attitudes toward and tendencies in consumption. To the question "if you have any money left over, how do you expect to spend it?" most households indicated they will use their surplus income first to "expand production," then to "build a house," and third to "obtain better food."

**II. Degree of Satisfaction With Rural Reform**

A. Overall evaluation. With respect to the changes that have occurred in the countryside since the 3d Plenum of the 11th Central Committee, 87.4 percent of the households surveyed said they were satisfied, 0.8 percent said they were dissatisfied, and 11.8 percent indicated neither satisfaction nor dissatisfaction.

B. Areas in which peasants are most satisfied. The survey indicated that peasants were most satisfied with the following aspects of reform. Ranked first was "the household responsibility system has given us more autonomy in production," second was a feeling of happiness and contentment that the reform has imparted—"we feel freer," third was "country markets are bustling, and business is convenient." The 10 answers provided in the questionnaire, their cumulative frequency and their ranking are listed in the following table (respondents were asked to choose and rank three answers).

**Areas in Which Peasants Are Satisfied**

Area	Cumulative Frequency (%)	Rank
The household contract responsibility system has given us more autonomy in production	90.4	1
We feel freer	57.2	2
Trade on country markets is bustling, so buying and selling are more convenient	51.4	3
Peasants are encouraged to engage in industrial and commercial trade and to diversify	32.5	4
The state has raised prices for agricultural and sideline produce	17.2	5
The elimination of unified procurement and use of contracts to set procurement levels	17.0	6
The practice of allowing some people to get rich first	13.5	7
The policy of permitting a variety of economic elements and operational forms to coexist	11.5	8
CPC work habits and social practices have improved	8.9	9
Other	0.1	10

These responses show that reforms that have expanded peasant autonomy in production, democracy, and the right of peasants to trade products are the most popular among rural residents. This, then, is where the success of rural reform lies—in respecting the position of the peasant masses as their own masters.

C. Areas in which peasants are most dissatisfied. Ranking first was “agricultural means of production have

increased in price, supplies are not delivered on time,” second was “produce procurement prices are too low, and contract procurement levels are too high,” third was “the burden of miscellaneous, arbitrary exactions is too onerous.” The 15 answers provided in the questionnaire, their cumulative frequency and their ranking are listed in the following table (respondents were asked to choose and rank three answers).

**Areas in Which Peasants Are Dissatisfied**

Area	Cumulative Frequency (%)	Rank
Chemical fertilizers, pesticides and the like have increased in price, and supplies thereof are not delivered on time	81.0	1
State procurement prices for produce are too low, and contract procurement quotas are too high	28.6	2
Miscellaneous, arbitrary exactions are too onerous	28.1	3
Land is overly parcelized, which makes cultivation inconvenient	27.9	4
Social disorder	20.9	5
Unhealthy tendencies are rampant	20.0	6
Mechanized farming, irrigation and drainage, and other things that households cannot manage individually are ignored	15.8	7
Buying and selling of marriages is rampant	15.2	8
Lack of new occupational opportunities	13.9	9
Basic-level cadres' work styles are corrupt	12.6	10
Feudalistic superstition and gambling are rampant	12.5	11
Collective property has been severely damaged	9.4	12
The family planning program is too strict	8.7	13
Produce is unmarketable	3.8	14
Other	1.7	15

From these figures, it is apparent that the first two responses in fact reflect the same phenomenon. The “scissors effect” that obtains in the exchange between agricultural produce and industrial goods, which had

been reduced, has grown again. The peasants say, “Chemical fertilizer is high-priced, diesel fuel is negotiated-priced, but farm and sideline produce are graded and priced low.”

Miscellaneous, arbitrary exactions have increased and are growing more burdensome, so a substantial number of peasants find them intolerable. The households surveyed paid an average of as much as 109.4 yuan for these levies in 1987, so the problem of peasant burdens, which had been ameliorated, is growing again. A considerable number of peasants were also dissatisfied with the lack of spiritual civilization, principally social disorder and unhealthy practices. Some respondents wrote on their questionnaires, "Nowadays, we have enough food and clothing but we don't feel safe," "we're eating well but not sleeping well," "the economy's been invigorated but social customs have been corrupted." Peasants want the government to adopt forceful measures to strengthen the legal system and spiritual civilization so that the peasants can live in peace as well as find contentment in their labor.

D. The principal ways by which peasants learn about the party's policies. The survey indicated that peasants learn about party and state policies mainly through news reports by the mass media and secondarily through transmission by local cadres. Specifically, 16.8 percent of the households surveyed cited newspapers, 18.7 percent said radio, and 17.4 percent, television. The percentage of respondents citing these mass media exceeded those citing local cadres by 12.5 percentage points. These responses, of course, are related to the fact that many village organizations have broken down, either completely or partially.

E. Views regarding the continuity of the CPC's rural economic policy. To the question "do you believe the CPC's rural economic policy will not change?" 42.2 percent of the households surveyed answered "yes," 9.8

percent said they were "not very convinced," and 48 percent said "not sure." These responses indicate that most peasants have doubts about the continuity of the party's rural economic policies.

### III. Land-Related Issues

A. The method by which land is contracted out. Of the 10,447 households interviewed who have contracted to farm land, 71.6 percent received their land on the basis of family size, 5.2 percent obtained land on the basis of the number of laborers they had, 21.5 percent got theirs through the "two field system," and 1.7 percent received their land through bidding.

B. Land parcelization. 62.7 percent of the households farming contracted land said they believed that "land is too parcelized, which makes cultivation inconvenient." On average, each household contracted to farm 9.2 mu of land, which was divided into 9 separate pieces. 68 percent of the households said that parcelized land should be readjusted, 78 percent of the households expressing this view said the readjustment should be effected in a unified way by the collective, and 22 percent said that peasant households should make the adjustments among themselves, voluntarily, through discussion and agreement.

C. Readjustments in contracted land. Since the land contract responsibility system was initiated, 44.4 percent of the households surveyed have readjusted their allotments, 55.6 percent have not. Peasant attitudes toward contract-land readjustments are presented in the following table.

Peasant Views on Land Issues

Question	Yes (%)	No (%)	Do Not Care (%)
A household, experiencing increases in membership or labor force, requests that it be allowed to contract additional land. Do you believe such requests should be honored?	80.6	8.9	10.5
A household experiences declines in membership or labor force; other families request that its land allotments be reduced. Do you believe such requests should be honored?	79.5	11.0	9.5
The entire labor force of some households is employed in collective enterprises or individual operations. Do you believe such households should give up their land to be recontracted out?	58.7	23.3	18.0
If a household splits up, should its contracted land be divided?	80.0	2.9	17.1
If a household lets its land go unused, do you believe the household should be forced to give up that land?	84.7	6.9	8.4

These responses indicate that most peasants want contracted land allotments to be readjusted in line with changes in household membership and labor force and to be divided when families split up. This attitude poses an obstacle to our effort to consolidate land holdings.

D. Attitudes toward land transfer. Of the households holding contracted land, 5.1 percent said they were willing to transfer their land to other people, 29 percent said they wanted to receive land transfers from other people, and 65.9 percent said they were unwilling to

engage in any transfer. Only 10.8 percent of the households engaged in secondary or tertiary industry indicated a desire to transfer their contracted land over to other people. These responses show that even nonagricultural households, who should be likely candidates for out-transfers of contracted land, are for the most part unwilling to abandon the land.

E. Peasant difficulties and demands with respect to farming operations. 58.1 percent of the households surveyed said they "lacked information on cultivation technology and would like guidance in this area," 48.9 percent said they find "disease and insect damage difficult to prevent and would like unified coordination in this area," 44.1 percent said they "have difficulty with irrigation and drainage and would like this work organized in a unified fashion," 30.7 percent said they "lack draft animals and farm machinery, have difficulty with field operations, and would like greater assistance in these areas." (Ten answers were provided in the questionnaire; respondents were asked to choose and rank three.)

F. Changes in household fertilizer use. When asked about fertilizer use in 1987, 46.9 percent of the households reported "using more than in the previous few years," 16.6 percent said they used less, and 36.5 percent answered "about the same."

#### IV. Issues Related to Agricultural Production

A. Agricultural, forestry, animal husbandry and fishery production. 10,524 of the households surveyed, 96.2 percent of the total, were engaged in agricultural, forestry, animal husbandry and fishery production during 1987; the other 3.8 percent had totally withdrawn from farm production of all sorts. Of the 10,524 farming households, 36.9 percent reported producing 1-3 types of products; 52.8 percent, 4-6 types; and 10.3 percent, 7 types or more, for a mean of 4.2 products per household. 96.1 percent of all farming households produced grain, so this was the leading product. Next was pigs and other animals, which 68.6 percent of all farming households produced. Third was vegetables, produced by 66.5 percent of all farming households. Fourth was chickens, ducks, geese and other poultry, 59.3 percent. Fifth was oil-bearing crops, 51.7 percent. Sixth, aquatic products, 16.2 percent; and seventh, cotton, 13.9 percent. Thus it is apparent that most peasants are primarily engaged in the production of five major products—grain, pigs, vegetables, poultry and oil crops. These findings show that peasants still practice a very traditional form of intensive farming and that their level of specialization remains low.

B. Peasants' basic considerations in cropping planning. The survey indicated that "meeting our own needs" is peasants' primary consideration in planning which crops to plant. Second is "meeting state procurement quotas," third comes "following the unified plans established by the village." These findings show that most peasants' production operations are by no means guided by the market. See the following table for details.

#### Peasant Considerations in Planning Cropping

Consideration	Percentage of Households Surveyed	Rank
Family's own needs	66.1	1
State procurement quotas	15.6	2
Village unified plans	8.4	3
Traditional practice	4.2	4
Market conditions	3.9	5
Following the example of other people	1.6	6
Other	0.2	7

C. Peasant attitudes toward grain production. The survey indicated that peasant attitudes toward grain production vary. Of the households surveyed 52.4 percent indicated that they were willing to plant more grain, 26.2 percent said "we should grow only as much as our families need and no more," 18.1 percent said "we don't know how to do anything else but grow grain," 2.7 percent said "there's no money in grain production, so we should cut back or get out of it altogether," and 0.6 percent expressed other attitudes.

D. Grain stocks. In January of this year, the households surveyed reported an average of 1,365 kg of grain stocks, of which 904 kg were for their own consumption, 273 kg were to be used as animal feed, and 168 kg were to be marketed; 55.2 percent of the respondents reported having grain stocks they wanted to sell but had not yet succeeded in doing so.

E. Trends in animal and poultry production. Of the households surveyed 37.9 percent indicated willingness to raise more pigs or poultry, 3.1 percent wanted to raise less, and 58.9 percent said "about the same." This finding shows that some peasants are beginning to respond to market demand.

#### V. Circulation of Agricultural Products and Supply Conditions for Agricultural Means of Production

A. Numbers and types of farm products sold. In 1987, 10,127 households, 92.6 percent of all households and 96.2 percent of the farming households surveyed, sold agricultural, forestry, animal, or fishery products, with an average of 2.9 types of products per family. Of these marketing households, 18.2 percent sold one type of product, 25.3 percent sold two, 24 percent sold three, 18 percent four and 9.5 percent five.

Of the marketing households, 79.1 percent sold grain (79.2 percent of all grain producers surveyed sold some of their grain output), 60.3 percent sold live pigs or other animal products (84.5 percent of all animal-product producers sold some of their output), 36.9 percent sold poultry products (60 percent of all poultry producers sold some of their output), and 34.7 percent sold oil crops (64.7 percent of all oil-crop producers sold some of their output). For details, see the following table.

**Peasant Product Marketing Tendencies**

Product Sold	Ratio of Households Selling the Product to Total Number of Households Marketing Products of All Types (%)	Ratio of Households Selling to Total Number of Households Producing the Product (%)
Grain	79.1	79.2
Cotton	12.7	88.3
Oil crops	34.7	64.7
Sugar	6.6	83.8
Tobacco	2.0	54.6
Hemp, etc.	4.7	73.5
Fruit	12.4	73.7
Vegetables	21.8	31.5
Tea	3.0	66.9
Wood, bamboo	5.7	47.5
Medicinal herbs	1.9	73.5
Poultry	36.9	60.0
Animal products	60.3	84.5
Aquatic products	5.4	70.1
Other	6.0	81.9

B. Sales methods. Most of the grain, cotton, oil crops, sugar, tobacco, hemp-type crops, tea, and other staple produce sold by the households surveyed were purchased by the state; very little was sold on markets. The reverse

was true for vegetables, fruit, animal, poultry, aquatic, and wood and bamboo products, most of which were sold on markets. For details, see the following table.

**Ways in Which Peasants Market Their Produce**

Produce	Procured Entirely by State	Sold Mainly to State, Secondly on Market	Sold about Evenly to State and on Market	Sold Mainly on Market	Sold Entirely on Market
Grain	57.9	27.8	6.6	5.1	2.6
Cotton	82.6	12.0	1.7	0.9	2.8
Oil crops	59.6	18.5	5.8	5.2	10.9
Sugar	74.6	7.1	1.2	0.9	16.2
Tobacco	60.6	4.2	2.3	6.1	26.8
Hemp, etc.	46.2	7.1	3.1	10.4	33.2
Vegetables	1.1	3.1	1.6	8.8	85.4
Fruit	8.5	5.4	2.0	7.4	76.7
Tea	48.3	11.8	4.9	8.4	26.6
Wood, bamboo	30.5	12.1	3.1	6.7	47.6
Medicinal herbs	38.4	11.0	2.4	4.5	43.7
Poultry	3.2	3.2	2.3	10.7	80.6
Animal products	17.7	8.1	6.1	8.6	59.5
Aquatic products	3.1	4.7	2.4	8.8	81.0
Other	24.7	15.2	4.2	6.2	9.74

C. Areas with which peasants are dissatisfied in their efforts to sell their output. Ranking first here was "procurement departments grade and price too low" (44.3 percent), second was "contract procurement quotas are too high" (20.4 percent), and third was "lawless swindlers dominate and monopolize markets" (5.6 percent). Of the households surveyed, 11.7 percent reported instances in which local government agencies refused to permit free trading of supraquota grain, oil crops, animal products and other produce. Peasants are extremely upset about such phenomena.

D. Issues relating to grain contract procurement quotas. Of the households surveyed, 92.7 percent said that grain contract procurement quotas should be fulfilled, 3.4 percent said such quotas "shouldn't be fulfilled," and 3.9 percent were unwilling to express their views. 90.5 percent of the households interviewed said they had fulfilled or surpassed their grain quotas for 1987, and 9.5 percent said they had failed to meet their quotas, 44.3 percent wanted their grain quotas for 1988 reduced, 4.4 percent wanted their quotas increased, and 51.3 percent wanted their quotas "kept the same."

E. Fulfillment rates for the "three linkages." The survey indicated that even in fixed observation points, to which local leaderships attach great importance, fulfillment rates for "three linkage" contracts ran only about 80 percent in 1987. According to the statistics for the 8,685 surveyed households that had grain procurement quotas to meet, these households on average received only 88 kg of the 108 kg of linkage chemical fertilizer they were promised, a fulfillment rate of 81.6 percent; only 20 kg, or 82.6 percent, of the 24 kg of diesel fuel they were promised; and only 54 yuan, or 85.6 percent, of the 62.9 yuan in advance payments promised.

F. Shortages of agricultural means of production. Of the households surveyed, 91 percent reported tight supplies of chemical fertilizer, 70.7 percent reported tight supplies of diesel fuel, 42.5 percent reported tight supplies of pesticides, and 33.9 percent reported tight supplies of plastic film.

### VI. Peasant Views on Getting Rich

A. Occupational considerations. To ascertain peasant views regarding occupational choice, we asked, "If a certain type of work were to offer you more earnings than you now make yet required greater effort than you now put in, would you be willing to accept that work?" 70 percent of the respondents said "yes," 8.3 percent said "no," and 21.7 percent answered "don't care."

B. How does one get rich? Of the households surveyed, 70.3 percent said "primarily through one's own ability," 17.9 percent said "by relying primarily on support and assistance from the state," 5.7 percent said "primarily through the collective," 0.9 percent said "primarily through the help of relatives and friends," and 5.2 percent "primarily by luck." These responses show that most peasants have abandoned the old notions of "waiting, dependence, and demanding."

C. Obstacles peasants face in getting rich. Peasants say that the obstacles they face in trying to get rich are, first in importance, a lack of capital; second, technical ignorance; and third, lack of up-to-date information. The frequency and ranking of the actual difficulties cited are listed in the following table. (Ten answers were provided in the questionnaire; respondents were asked to choose and rank three.)

Difficulty	Cumulative Frequency (%)	Rank
Lack of capital	76.8	1
Ignorance of technology	49.6	2
Lack of up-to-date information	47.7	3
Insufficient labor	33.7	4
Lack of managerial skills	31.0	5
Insufficient schooling	23.4	6

### Difficulties Peasants Face in Getting Rich

Difficulty	Cumulative Frequency (%)	Rank
Lack of coordinated help from rural economic cooperative organizations	14.4	7
Obstacles created by administrative agencies	14.2	8
Jealousy on the part of other people	3.5	9
Other	3.0	10

D. Peasant views of who prospered most before and after the 3d Plenum of the 11th Central Committee. Most of the households surveyed claimed that, before the plenum, it was village cadres who prospered most, followed by "families having more labor," and then by "families having members working outside the community." After the plenum, said peasants, it has been "skilled persons who understand technology" who have taken the lead in getting rich, followed by "aggressive traders," then village cadres, with "families having more labor" and "families having members working outside the community" falling to fourth and fifth place, respectively. These responses show that reform has made it possible for people to compete on an equal footing and has enabled people with knowledge, technical skills and managerial capabilities to use these advantages to take the lead in getting rich.

E. Peasant views on income inequality. To the question "compared to the pre-reform era, have peasant incomes become more unequal or less?" 87.6 percent of the respondents said "more," 2.5 percent said "less," 5 percent said "no change," and 4.9 percent answered "don't know." When asked about their feelings regarding increased income inequality, 70.5 percent of the respondents thought such disparity was "reasonable," 11.7 percent answered "unreasonable," and 17.8 percent said "don't know." These findings show that the vast majority of peasants find income disparity both understandable and acceptable.

F. Peasant views regarding rich households. As to their views concerning peasants who have gotten rich first over the past several years, 70.3 percent of the respondents said "they are models to be emulated, and we shouldn't be jealous of them"; 5.6 percent answered "for a minority to get rich first exacerbates income disparity, so this phenomenon should be restricted"; 4.9 percent chose "I oppose letting a minority get rich first; if there is prosperity, let us all get rich together; if there is poverty, let everyone be poor"; and the other 19.2 percent answered "no opinion." This finding shows that the traditional view that "what is to be feared is inequality, not dearth" has been rejected by most peasants after 9 years of reform. This certainly marks a major change in peasant attitudes.

G. Peasant views of the use of hired labor. Of the households surveyed, 47.8 percent said use of hired labor "should be permitted and properly guided"; 13 percent said "although the practice should be tolerated, it must be restricted"; 8.6 percent said "the practice is exploitative and must be opposed"; and 30.6 percent answered "no opinion."

#### VII. Views Regarding the Establishment of Village Cooperative Economic Organizations and Evaluations of Village Cadres

A. Views on village cooperative economic organizations. To the question "Are village cooperative economic organizations needed now that land has been contracted over to households?" 62 percent of all respondents said "yes," 17.2 percent said "no," and the other 20.8 percent answered "don't care." Households believing that such organizations are required said that the organizations should focus on providing service, management and accumulation. Ranking first in these responses was "carrying out the CPC's rural economic policy," second was "providing information on commodity production and guiding peasant production," third was "pay attention to modernization, mechanized irrigation (and drainage), mechanized cultivation, and other services, so as to take care of the things that a single family or household cannot manage or handle very well." Of the respondents who said such organizations are not necessary, 9.4 percent said that the above functions should be handled by village party branches, 17.4 percent said village residents' committees should handle the functions, 68.8 percent said both the branches and the committees should handle the functions, and 4.4 percent said the functions "aren't necessary."

B. Views of village cadres. To the question "which statement most accurately describes the cadres of your village," 38.1 percent of all respondents answered "they work hard to lead everyone to get rich together," 26.5 percent said "they're only worried about enriching themselves," 9.7 percent said "they use their power for their own selfish ends," 9.1 percent said "they take their allowances but don't do any work," 3.3 percent said "they don't follow policy," and 13.3 percent were unwilling to express an opinion.

#### VIII. Peasants' Quest for Knowledge and Hopes for Their Children

A. Understanding of the importance of knowledge. The survey indicated that the vast majority of peasants understands the role of knowledge in the development of the rural market economy. The specific responses were as follows. Of the households surveyed, 54.4 percent said knowledge is "very useful" to the village, 41.5 percent answered "is of some use," and 4.1 percent said "useless."

B. Hopes for children's education. Of all parents surveyed, 66.6 percent said they hoped their children would go to college, 12.6 percent indicated polytechnic schools,

10.5 percent answered senior middle schools, 8.2 percent chose junior middle school, and 2.1 percent responded "finish primary school."

C. Hopes for children's occupations. Nearly 90 percent of all parents surveyed wanted their children to leave the village and not be peasants after growing up. The specific responses were as follows: 42.5 percent said they hoped their children "go to college and become state cadres," 17 percent expressed the hope that their children would become workers, 10.2 percent chose PLA soldiers, 9.9 percent teachers, 4.6 percent individual industrial-commercial households, 2.3 percent rural cadres, 10.5 percent peasants, and 3.0 percent other occupations.

#### Need for Increased Water Conservancy, Flood Control in Jiangxi

40060082a Nanchang JIANGXI RIBAO in Chinese  
28 Sep 88 p 2

[Article by Dong Hongbiao 5516 7703 1753: "Need To Make the Building of Water Conservancy a Part of Total War For Agricultural Development"]

[Text] Water conservancy is a major integral part of total war for the development of agriculture. Jiangxi Province's water conservancy facilities have reached a certain overall level with more than 390,000 water conservancy projects of all kinds having been built throughout the province. The effectively irrigated area of the province is 27.32 million mu, and the area from which a crop can be assured despite drought or flood is 19.94 million mu, which is 78 and 57 percent respectively of the total cultivated area. In addition, more than 6,000 small hydropower stations having a total installed capacity of 600,000 kilowatts have been built. These facilities play an important role in the national economy and the people's livelihood, and they constitute an indispensable foundation for future total war for the development of agriculture. Nevertheless, when weighed against the goals and needs of total war for the development of agriculture, the existing water conservancy facilities hardly meet the new circumstances. Therefore, it is necessary to make water conservancy facilities a part of the total war for development of agriculture and do a solid job of building water conservancy.

#### I. Control of Flood Damage and Increased Prevention of Floods

Flood disasters remain a serious "latent danger" in Jiangxi Province. In most years, approximately 2.5 million mu in the province is subject to waterlogging, and in certain years approximately seven million mu of farmland is inundated despite combat against floods and the draining away of water from the land. Therefore, development of agriculture requires flood prevention. In recent years, the emphasis in construction to prevent floods has continued to be placed on dikes and reservoirs to reduce frequency and intensity. In eastern Jiangxi, where the Fuxi Dike and the Jiujiang Yangtze River

Dike protect the heart of the province, relatively large forces should be concentrated to attain within approximately five years the goal of improving flood control there. The same goal should be attained in approximately six years for the key dikes in the Boyang Hu area. In curbing floods, plains areas should build dikes for prevention, and mountain regions should rely on dikes for impoundment. Thus, it is necessary to focus on the building of critical large and medium size reservoirs. None of the province's planned 75 large and medium size critical reservoirs has been built, so efforts should be made to complete the reinforcement of existing facilities by 1990. With regard to the more than 4,000 small size critical reservoirs, all jurisdictions should follow the principle of self-reliance to organize forces and the county, township and village levels to do whatever is necessary to reinforce them by stages and in groups in order to improve their ability to impound water and their flood prevention standards.

## II. Development of Water Conservancy and Good Performance in Equipping New Construction

The purpose of water conservancy is to provide sources of water, especially sources of water for irrigation. In Jiangxi Province, between six and seven million mu of farmland is without irrigation facilities, and obtaining drinking water is a problem for more than 2.4 million people and more than 1.3 million head of livestock. During the severe drought of 1988, in particular, nearly 17 million mu of farmland suffered from drought in varying degrees, pointing up even more the severe shortage of water sources. With the development of agriculture, and the reclamation of barren mountains and wastelands, the amount of irrigation is bound to increase. Unless the building of water conservancy keeps pace, it will be difficult to complete some development projects. Right now, it is necessary to focus on existing water conservancy projects to make sure that water conservancy projects are completely equipped. Attention must be placed on project maintenance, management, and the tapping of potential for steady improvement in project in-service rates, and a transition to scientific management, and optimum scheduling, all irrigation areas thereby being able to attain or surpass intended benefits. In addition, general methods should be suited to specific circumstances for the building of a number of new projects. Small arid areas lacking water conservancy facilities should mobilize and organize the masses to turn to good account the time used for annual repairs and the time between busy seasons in farming, each township, each village, and all partnership households waging war to build small farmland water conservancy projects. Areas having large arid tracts or a fairly large number of newly built agricultural projects should adopt a policy of simultaneously building large, medium, and small water conservancy projects, doing whatever their own resources permit with support from the state to build large and medium size key water conservancy projects in the gradual formation of a fully integrated system.

## III. Expansion of Energy Sources Through the Development of Small Scale Hydropower

Jiangxi Province lacks coal and has little petroleum, but it has rather plentiful water power resources. Rural energy should be provided largely through the building of small scale hydropower facilities. Attention should be given first to the building of pilot project counties for rural electrification, and the seven counties in the province that have yet to reach their quotas should reach it on time or ahead of schedule. Management should be improved for those small power stations and small power grids that have already been built, and a good job done of fully equipping them, tapping their potential, improving them, increasing their output, and increasing returns from them.

## IV. Devise Means for Increasing Investment

As a result of the insufficient investment of funds and labor in recent years, a marked "slump" has occurred in the building of water conservancy in the province. Unless this situation is changed, the building of water conservancy will be difficult, and total war for the development of agriculture will also be checked. Both the central authorities and the province have emphasized time and time again the need to revive investment in water conservancy to the level of 1980, but 61 of the counties (cities, and districts) in the province have yet to attain this level of investment. Thus, means will have to be devised to increase investment in water conservancy. Funds for water conservancy will have to be accumulated through an expansion of sources of revenue, an increase in channels, and an increase in levels, inducing collectives and the public to invest money in the building of water conservancy. All jurisdictions should look at the way in which individual rural households farm as a starting point for solving the problem of insufficient investment of labor in water conservancy. They should then formulate specific methods and apply them level by level in a system of "20 days of total labor each year contributed to water conservancy." They should also conscientiously organize the masses for construction to insure a sufficient investment of labor each year for the annual repair of water conservancy facilities, doing a solid job of building water conservancy.

## Rural Economic Achievements Reported in Jilin *SK2510082888 Changchun JILIN RIBAO in Chinese 27 Sep 88 p 1*

[Text] After 10 years of reform, the province's rural areas have already begun to extricate themselves from the yoke of the traditional natural economy and the old economic structure, forming a new situation in which diversified industries based on agriculture are developing comprehensively.

The rural economy has made comprehensive headway. In 1987 the total product of the rural society amounted to 19.72 billion yuan, showing a 150-percent increase

over 1978 in terms of comparable prices, for an average annual increase of 10.9 percent. In particular, nonagricultural industries have developed rapidly. During the past nine years, the output value of rural industries, commerce, the building trade, and transportation has increased by 480 percent.

A breakthrough has been made in grain production. Over the past few years, the province's grain output has jumped over the two new stages of 10 million tons and 15 million tons, one after the other. In 1987 the province's grain output reached a record high of 16.76 million tons. In addition, the province has ranked number one in the country for five years in succession in the fields of the amount of grain per capita, the commodity rate of grain, the amount of grain transferred to other provinces, and the amount of corn exported.

Changes have taken place in the international structure of agriculture. From 1979 to 1987 the forestry output value registered an average annual increase of 8.6 percent; that of animal husbandry, 8.0 percent; and that of fishery, 18.5 percent. All of these figures surpassed the average yearly increase rate of 6.4 percent scored by the cropping industry.

Remarkable progress has been achieved in rural specialized production. The rural reform has energetically promoted the development of productive forces and has brought about a large number of specialized households that have become prosperous by vigorously developing commodity production, and has brought about a great number of new economic associations. In 1987 there were 130,000 specialized households of various kinds and 1,713 integrated entities throughout the province. The rapid development of specialized and integrated households has accelerated the pace of specialization, commercialization, and modernization of agriculture.

The commodity rate of agricultural products has gone up substantially. In 1987 the commodity rate of the province's agricultural products reached 56.9 percent. Of this, the commodity rate of grain rose to 58.8 percent from 31.5 percent in 1978 and that of hogs rose from 23.8 percent to 54.4 percent.

Agricultural production conditions have improved further. At the end of 1987, the total power capacity of farm machines reached 5.349 million kw, an 88.3-percent increase over the end of 1978. Meanwhile, the electricity consumed by rural areas totaled 1.49 billion kilowatt-hours, an 83.6-percent increase. The amount of chemical fertilizer applied reached 1.958 million tons, approximately a 200-percent increase. All of this has created conditions for developing the province's agricultural production.

Agricultural science and technology has been applied extensively. Thus far, more than 90 percent of the province's farmland has been sown with improved varieties of crops, and the early-maturing and high-yield

cultivation technologies of corn have been applied on a large scale on the farmland in the central province. The whole province has made a new breakthrough in applying the plastic-film covering technologies. In 1987, some 821,200 mu of farmland was covered by plastic film.

Economic efficiency of rural economy has improved remarkably. First, the labor productivity has been raised by a large margin. In 1987 the total product of rural society created by each rural laborer amounted to 6,831 yuan, a 57.9-percent increase over 1978 in terms of comparable prices. Second, the output rate of cultivated land has risen constantly. In 1987 the cropping industrial output value created by each mu of cultivated land amounted to 145 yuan, a 75.6-percent increase over 1978. Calculated in terms of cropping acreage, the average grain yield per mu as 321 kg, an 89.9-percent increase. Third, the efficiency of fixed assets has improved. In 1987 the net income from the original value of each 100 yuan of productive fixed assets amounted to 174 yuan, an increase of more than 100 percent over 1978.

#### **Sichuan Hog Production Provides Example for Other Provinces**

40060058 Beijing *NONGYE JINGJI WENTI*  
[PROBLEMS OF AGRICULTURAL ECONOMY] in  
*Chinese No 8, 23 Aug 88 pp 9-13*

[Article by Liu Jiang 0491 3068, Ministry of Agriculture: "Hog Raising in Sichuan and Lessons That May Be Drawn From It"]

[Excerpt]

#### **I. The Situation**

The overall situation for hog production in Sichuan is that enthusiasm for hog raising is high among peasant households; a steady rise has taken place in the number of hogs in inventory and the number removed from inventory; and markets for the buying and selling of hogs are lively. This has been manifested in the following several ways.

#### **A. Rise in Enthusiasm for Production and Speed Up in the Development of Production**

Due to the further relaxation of market controls toward the end of 1987, procurement prices for live hogs rose substantially, further firing peasant enthusiasm for hog raising. A new craze for raising hogs occurred in numerous rural villages, and in many places the peasants increased their investment in hog production, buying more piglets and building new pig pens.

This rise in peasant enthusiasm for raising hogs has caused a considerable expansion of production. During the first quarter of 1988, there were 63.44 million hogs in inventory, and 14.29 million were removed from inventory, a 3.7 and 19 percent increase respectively over the

same period in 1987. Brood sows numbered 4.29 million, up 5.8 percent from the same period in 1987. All these figures showed a higher rate of increase over the same period in 1987. A survey of hog raising bases showed a more than 25 percent average increase over the same quarter in 1987 in both the number of fattened hogs removed from inventory, and the output of pork during the first quarter at 32 locations. Substantial increase also occurred in both the number of hogs and the number of brood sows in inventory.

#### **B. Increase in Households Specializing in Hog Raising and Expansion of the Scale of Hog Raising**

While continuing to encourage the myriad households to raise hogs, during 1988 all parts of Sichuan emphasized planned assistance to peasants to become specialized producers. In the first quarter of 1988, the speed with which specialized hog production developed increased markedly, first through an increase in the number of households specializing in hog raising. Plans for the year called for building 12 new base counties while improving the existing 31 commodity hog base counties, and a decision was made to develop an additional 100,000 households specializing in hog raising capable of removing 30 or more hogs from inventory each year. As of the end of April 1988, 10 percent of peasant households in Jianyang County had expanded the number of large hog raising households able to remove 10 or more hogs from inventory each year. Second was an expansion of the scale of hog raising. Accompanying improvement in services was an expansion of the scale of hog raising by specialized households. Survey statistics from Bi County showed a county-wide expansion from 24 to 30 in the average number of hogs raised by specialized households.

#### **C. Acceleration of the Spread of Science and Technology**

At the beginning of 1988, the provincial government made clear that all jurisdictions should devote major efforts to scientific hog raising and providing better services to gradually raise the level of intensive farming. All jurisdictions further strengthened leadership for the spread of science and technology, scientific and technical personnel becoming the people most heartily welcomed by the peasants in the development of the commodity hog production. There were a total of 170 veterinary medicine personnel at the county, district, and township levels in Bi County, all of whom signed technical contract agreements early this year with major households specializing in hog raising, and implemented a contract responsibility system to provide care for hogs, the provision of scientific and technical services being paramount. "Double promotion and five changes" techniques for hog production, which had been tried out in pilot projects during 1987, were extended over wide areas in 1988.

The general spread of science and technology markedly decreased the amount of labor required in hog production, and increased the scale of hog raising; costs declined and economic returns increased correspondingly. Today, Sichuan peasants need only 150 kilograms of grain to raise a hog that can be sold for a net profit of between 30 and 50 yuan. A single worker who raises 50 hogs a year can thus earn between 1,500 and 2,000 yuan. Clearly, Sichuan hog production has become an industry having appreciable economic returns and vitality.

#### **D. Hog Commodity Markets Lively; Buying and Selling Brisk**

Acting in the spirit of relevant State Council documents, hog procurement prices throughout Sichuan were further freed from restrictions during 1988, hog procurement prices basically followed the market. In addition, multiple channels for managing live hogs were developed, forming a basic pattern in which marketing outside the province was maintained through main channels, and sales inside the province were maintained through multiple channels. This made hog commodity markets boom.

During the first quarter of 1988, the number of hogs removed from inventory increased nearly 20 percent over the same period in 1987. However, due to management through numerous channels and price deregulation, hog procurement increased and it was easy to sell hogs. Procurement prices for hogs remained fairly steady throughout Sichuan, the first quarter hog procurement price stabilizing at between 2.40 and 3.00 yuan per kilogram. The price ratio between hogs and grain was 1 to 5 - 6, which was quite equitable.

This year's hog sales have also been better than last year's. Plans called for obligatory sales to the state of 200,000 tons for the whole province in 1988. During the first quarter, 130,000 tons were provided, fulfilling 65 percent of the annual plan, more than double the amount for the same quarter in 1987. Sales within the province also increased, city and town markets becoming extremely lively. Prices were steady with some decline, the sale price for pork stabilizing at approximately 4.20 yuan per kilogram during April. Pork was plentiful; markets were stable; and consumers were satisfied.

To summarize the foregoing, throughout 1988, Sichuan Province's hog production maintained fairly rapid increase, and the overall situation was good. Forecasts and analysis say that barring unforeseen factors, production and marketing plans for 1988 may be overfulfilled, and the situation will be better than in previous years.

## **II. Principle Experiences and Problems**

In the development of China's animal husbandry, grain is the primary factor restricting the development of hog production. Fluctuations in China's grain output during

recent years have meant a marked slowing in the expansion of hog production throughout the country. Scarcity of livestock feed and a rise in prices have occasioned short-term fluctuations in hog production. This has been the direct cause of sharp conflicts between production and marketing. However, faced with the same kind of grain production situation, and despite no fairly large increases in output of livestock feed throughout the province, what are the main reasons that Sichuan's hog production has maintained substantial increase? We believe, on the basis of surveys, that the main reasons are:

#### **A. Serious Attention to Leadership and Stable Policies**

Sichuan is a large inland province located in southwestern China where the mild weather, copious rainfall, and sub-tropical humid climate are suitable for the growing of all kinds of grain crops and green livestock feeds. The abundant livestock fodder resources provide superb conditions for the development of the hog raising industry. Additionally, in the development of Sichuan's rural economy, township and town enterprises have developed more slowly than in coastal regions, so more surplus manpower is available. The raising of hogs also remains the main source of cash income for peasant families, 30 percent of hog raising being done by ordinary households, and between 50 and 70 percent being done by key households and specialized households. Consequently, leaders at all levels pay serious attention to hog production. The provincial CPC Committee, and the provincial government have clearly enunciated the strategic thought of "taking farming as the foundation and taking animal husbandry and township and town enterprises as mainstays" for development of the rural economy. In view of the new circumstances and new problems that occur in the production process, each year a special conference is convened for timely formulation of policies and actions to encourage and give support to hog production, producers thereby gain economic returns. The most important of these is the policy of making award sales of grain. For each hog that the state buys, an award sale of between 25 and 35 kilograms of feed grain at parity price is allowed. This policy was inaugurated in 1960, and has been consistently maintained without change despite the "difficulty in selling hogs" that occurred during 1980. It has played a major role in the stabilizing of hog production. The second most important policy has been using hogs to raise hogs. For each porker raised, a technical improvement fee of 0.40 yuan and a slaughter fee of 0.50 yuan are collected as a fund for the development of hog production. In some commodity lean pork base counties, each year 1 yuan per hog must be paid into a base construction fund.

In 1987, Sichuan Province set up a hog adjustment fund, the main source of funds came from withholding a certain percentage from transactions. Most was used when changes occurred in the relationship between supply and demand, and in prices, price remedies were used to insure fulfillment of state procurement plans, and to safeguard the interests of producers and consumers.

#### **B. Gradual Strengthening of a Services System**

A full service system is an important guarantee to develop hog production when families are raising hogs. In building a service system, Sichuan Province has devoted attention to the building of "four major systems."

**A system for raising fine breeds.** The province has used state-owned hog farms to raise fine hog breeds and supply its counties. In addition, it has purchased some hog breeds from outside the province each year to improve its own hog breeds. This attention to hog breeding has formed a basis for corresponding building of artificial insemination stations and semen supply points, artificial insemination being used in the breeding of hogs. Today, more than 50 percent of the province enjoys advantages from the crossbreeding of hogs; at the province's 31 commodity bases, it is 93 percent.

**Epidemic prevention system.** Today, there are 224 prefecture and county level veterinary stations in Sichuan, 9,568 district and township veterinary stations, and most townships and villages have epidemic prevention personnel. Together, the prefecture, county, district, township and village veterinary personnel form a corps of 12,000. As a result, the province's hog death rate from epidemic diseases has fallen to approximately 5 percent, and to below 3 percent in commodity hog base counties, both of which are much lower than the national average.

**Fodder production system.** By 1986, Sichuan had built 479 feed processing plants and 2,421 processing points with an annual production capacity of 1.24 million tons. In 1987, production of mixed (compound) feeds was 1.7 million tons, up 1.7-fold from 1984.

**Technical services system.** Thanks to many years of effort, Sichuan Province has fashioned a fairly strong system for the teaching of animal husbandry, scientific research, and promotion. To make the most of Sichuan's advantages in hog raising, the province carried out systematic research, development, and promotion work by assigning scientific and technical projects, by emphasizing key links in hog production such as science and technology, fine breeds, feeding, care, and epidemic prevention, and mutual cooperation. Animal husbandry units at all levels, particularly district and township animal husbandry veterinary stations, signed contract agreements with hog raising peasant households to supply improved compound feeds, and to provide scientific hog raising techniques and epidemic disease prevention and control. Today, there are 2,325 district and township veterinary stations in the province (one-fourth of the provincial total) engaged in providing technical services through contracts.

#### **C. Institution of the "Double Promotion and Five Changes," and Popularization of Scientific Techniques for Raising Hogs**

Over the past several years, Sichuan has actively promoted the "double promotion and five changes," and multiple techniques for raising hogs on a rather large

scale. "Double promotion" means the promotion of economic crossbreeding and additional feeding of piglets. The "five changes" means a change to breeding through artificial insemination, a change from a single feed to compound feeds, a change from meager feedings of cooked feed to the feeding of fodder in its natural state, a change from gradual increases in the amount of feed provided to a straight line feeding system for fattening, and a change from feeding adult hogs to removing them from inventory at the proper time. Remarkable economic returns have been realized from popularizing the "double promotion and the five changes" techniques. Surveys show that the change from meager feedings of cooked feed to the feeding of natural fodder alone can save 400 kilograms of green feed per hog, plus 10 yuan for fuel. Labor costs have fallen greatly as the number of hogs fed per worker has greatly increased. These multiple techniques can shorten the feeding time per hog by 2 months, and increase cash returns by 20 yuan. Within 2 years after promoting the "double promotion and five changes," the rate of removal of hogs from inventory in the Beibei District of Chongqing increased from 84 percent to 113.4 percent, and production costs for the fattening of hogs dropped approximately 30 percent for an annual average increase in returns of 5 million yuan. Today, these techniques are being increasingly accepted by peasant households for extremely remarkable benefits.

#### **D. Adherence to the Mass Raising of Hogs, and Active Development of Hog Raising on a Proper Scale**

The provincial CPC Committee and provincial government have proceeded from current realities in Sichuan Province to spell out a policy for the development of hog production in which family hog raising plays a key role. In addition, it has used family hog raising as a basis for greater building of lean hog commodity bases, to develop hog raising on a proper scale, to raise the level of intensive hog farming, and form a relatively stable commodity production capacity. By the end of 1987, Sichuan had built 31 lean pork commodity base counties, and according to statistics 15.37 million hogs were removed from inventory. This was 30 percent of the total for the province in 1987, and a 5.8 percent increase over the previous year. A 91 percent rate of removal from inventory was higher than the 84.3 percent rate for the province as a whole, and the commodity rate reached 85 percent. At the same time, all prefectures and counties adopted policies to encourage and support specialized households in the raising of hogs, and actively developed a proper scale of specialized hog raising. In Bi County, for example, a policy of "five priorities" was instituted to support specialized households. This policy provided for priority supply of fine breed piglets, supply of feed at parity prices, institution of technical contracting, institution of epidemic prevention insurance, and purchase of porkers removed from inventory. Currently, there are 14,000 specialized households in the 31 base counties that remove 20 or more hogs from inventory each year.

#### **E. Continued Reform of the Livestock Economic System, and Exploration of New Ways To Unify Management of Production and Marketing**

In its reform of the hog production and marketing system, both the Sichuan provincial CPC Committee and the provincial government have adhered to deregulation to bring about an enlivening, and the use of multiple channels of operation. In 1979, it started pilot projects using multiple channels and diversified operations in reform of the system, and very quickly abolished the use of ration coupons to supply pork. The use of multiple channels enlivened markets, and the tremendous sustained increase in commodity hogs solved the problems of "difficulty in buying and selling" pork, and also protected consumer's interests. Restrictions on live hog markets were further relaxed in 1985, and a "double track system" of planned guidance prices and market prices was instituted. As a result of the intense friction caused by the two sets of prices, in April 1988, there was a complete relaxation of restrictions on hog markets and on prices everywhere but Chongqing. The resulting more equitable ratio between hog and grain prices further stirred peasant enthusiasm for raising hogs. Pork markets flourished; both purchases and sales were brisk; prices stabilized; and consumers were quite satisfied. A reduction in subsidies reduced pressures on local treasuries. Beginning in 1982, first Jianyang and then Bi county courageously tried out reform of the unified production and marketing management system, scoring remarkable success. Not only was overall management of livestock production strengthened and macroeconomic regulation capabilities improved, but the former mutually limiting situation of isolation of sectors, and disjunction between production and marketing was overcome.

In short, Sichuan Province's basic experience in the expansion of hog production was successful. Not only was full advantage taken of Sichuan Province's natural advantages, but an economic environment conducive to the development of hog production was created. This is a lesson that merits application by all jurisdictions. However, there were also some problems:

**1) Weakness of the hog raising industry's basic facilities.** In a large hog raising province such as Sichuan, there are no stock farms for the breeding of hogs from outside the province or stations for measuring the performance of hog breeds. The number of boars in the province from breeds external to the province cannot satisfy the need to expand production. Facilities for the propagation of fine breeds is poor in all but the 31 commodity hog base counties, and must be renovated or expanded. The total annual output of compound (mixed) feed from the livestock feed industry is less than 15 percent of the planned amount needed for hog production. There is a considerable gap between supply and demand of animal protein feed, and more building of the livestock feed and raw materials industries is urgently required. In the field

of veterinary medicine and epidemic prevention, equipment is old, methods are antiquated, and most counties lack the necessary instruments and equipment.

**2) Lack of a stable correlation between production and marketing.** At present, Sichuan sells more than 16 million hogs outside the province, approximately one-third of its gross hog output. This shows that Sichuan's hog production has entered the economic cycle of the large domestic market, and that future domestic market fluctuations will directly affect the development of Sichuan's hog production. The nationwide pork shortage in 1987 sent many provinces and municipalities scurrying to obtain hogs from Sichuan, greatly stimulating production. In 1988, some provinces and municipalities adapted measures to increase reserves, so hog transfers from Sichuan waned. Such instability between supply and demand will have an adverse effect on the development of hog production in Sichuan. In addition, though restrictions have been relaxed on Sichuan's hog markets, planned freight cars for hog transfers outside the province remain under control of the provincial food company, and multiple channels for shipments outside the province have not been formed.

**3) Serious shortage of operating funds.** Funds for hog, cattle, and sheep epidemic prevention for Sichuan was set at 10.8 million yuan on the basis of the number of animals raised during 1978. Despite an increase in 1986 to 12.3 million yuan, there is a greater shortage of funds for epidemic prevention because of a more than 70 percent increase in the number of animals and epidemic prevention tasks, as well as a rise in prices for medicines and antiseptics. In addition, the long-standing situation in one-fourth of the province's district and township veterinary stations of receipts not equalling expenses seriously affects the development of normal epidemic prevention work.

### III. Some Suggestions

On the basis of Sichuan's experiences in relation to the national situation, some suggestions are offered to develop the country's hog production in the near future.

#### A. Guiding Thoughts On Developing China's Hog Raising Industry

Hog production is an important integral part of China's livestock; it is a bulwark and a mainstay of animal husbandry in farming regions. Steady development of hog production holds crucial importance for the building of the national economy and raising the standard of living. In view of the national situation and the current development status of the hog raising industry, the guiding thought for development of China's hog raising should be: Use of family hog raising as a foundation for active development of a proper scale of specialized hog raising; opening of multiple channels for doing business; promotion of unified management of production and marketing; increased building of basic facilities and

provision of services; popularization of complete hog raising techniques to raise the scientific breeding level; increase the rate of removal from inventory, the lean pork rate, and the commodity rate to advance China's hog production to a new stage.

#### B. Carry Out Reform of the Livestock Economic System

Experiences gained from pilot projects in some parts of Sichuan show that institution of unified management of production and marketing helps increase macroeconomic control capabilities, develop production, enliven the circulation of commodities, coordinate production and supply links, and increase work efficiency. A summarization of experiences at pilot projects throughout the country should form the basis for an expansion of the scale of experimentation to hasten the pace of reform of the unified management system for production and marketing. In addition, once price and non-staple food subsidy policies have been reformed, there should be a complementary reform of the hog marketing system to conduct business through multiple channels. A market risk fund should be set up to cushion the impact of market fluctuations on production, and to safeguard the interests of producers.

#### C. Increased Investment and Increased Building of Basic Facilities

The incomplete hog production service system, and weakness of basic facilities have become important elements limiting the steady development of China's hog raising industry. Increased investment, and building of the technical service system to provide fine breeds, fodder, epidemic prevention and processing, and the provision of a series of services to producers before, during, and after production will be required in the future. Additionally, it will be necessary to reform the livestock veterinary stations at the grassroots level, to apply services to produce and to produce in order to provide services, develop technical contracting and compensation services, and strengthen self-development capabilities and service functions.

#### D. Put Development of Hog Production On the Path of Reliance on Scientific and Technical Progress

It must be made perfectly clear that under the dual limitations of a severe shortage of funds and grain resources, reliance on scientific and technical progress to improve economic returns is an important way to develop China's hog production. For many years, the broad masses of peasants and animal husbandry scientific and technical workers have applied advanced scientific and technical achievements, and have used numerous innovations acquired through practice in the raising of hogs, achieving fine technical results. Every jurisdiction should promptly summarize, evaluate, assemble, and integrate these practical techniques to shape an overall complete body of techniques for scientific hog raising that can be promoted

### E. Increase Building of Commodity Bases

Over the long run, China's traditional single family, single household raising of hogs as a sideline occupation will be unable to satisfy the needs of the steadily expanding commodity economy, particularly the rapidly increasing demand for pork in large and medium-size cities. There will be a conspicuous conflict between production and marketing. Increased building of commodity hog bases and active expansion of specialized hog raising on a proper scale is not only an effective way to stabilize the development of hog production and insure market supply, but it is also a positive measure for increasing the technical level of hog production and insuring good economic returns from hog raising. The continuation of family hog raising will serve as a basis for future active development of the raising of hogs primarily by specialized households on a proper scale. At the same time, attention will be given to providing services before and during production, and to marketing services after production for the formation of a modern breeding industry that is distinctively Chinese. Use of multiple channels to raise funds for building area-wide commodity production bases will be done primarily by the households specializing in the raising of hogs on an appropriate scale in commodity production bases, who will be responsible for providing pork to the residents of large and medium-size cities in order to resolve the conflict between large markets and small-scale production.

### F. Founding of Economic Cooperation Zones to Form Stable Production and Marketing Relationships

Large cities are the principal markets for pork consumption; however, suburbs have only limited agricultural resources; feeding costs are high; there is a strong conflict between the use of resources for raising hogs and other purposes; and peasant enthusiasm for hog raising is not high. In the vast rural areas of Sichuan, however, because of abundant natural resources and a large amount of idle labor, hog production costs are relatively low, so peasant household enthusiasm for raising hogs is relatively high, and the building of stable commodity hog bases holds extremely important significance. In terms of future development, cities' steadily increasing demand for pork will have to be supplied by the vast countryside. Therefore, development of China's hog raising industry must follow the trend of a regional division of labor and rational distribution. The supply of pork to cities will have to be done on the basis of a proper increase in the self-sufficiency rate. Economic cooperation will have to be established with hog producing areas to form stable production and marketing relationships. In the building of economic cooperation zones, a policy will have to be followed of joint planning of production and marketing zones, combined investment, joint construction, joint sharing of benefits, and proper state support. The correlation between direct economic benefits and social benefits will move production zones and marketing zones in the market direction that will be linked closely together,

share market risks, and overcome the basic passive situation of unbalanced growth and decline and major ups and downs in production and consumption to advance the steady and coordinated development of China's hog production.

### Current Status, Future Prospects of Yunnan's Sugar Industry

40060034 Kunming JINGJI WENTI TANSUO  
[INVESTIGATION INTO ECONOMIC PROBLEMS]  
in Chinese No 8, 20 Aug 88 pp 37-38

[Article by Wang Han 3769 3352: "Developing Yunnan's Sugar Industry"]

[Text]

### I. Cane Sugar Production at Present

Yunnan began planting sugar cane when the Ming Dynasty was giving way to the Qing. During the initial period of Liberation, cows were used to pull the wooden presses in production of brown sugar. By 1950, brown sugar production was a paltry 22,000 tons. Yunnan's first mechanized sugar refinery was built in Panxi, Huang County in 1956 with a daily processing capacity of 150 tons. By 1978, 27 such plants had been built with a daily production capacity of 12,000 tons. In the 1977-78 pressing season, 135,000 tons of sugar were produced. After the Third Plenum of the 11th Party Central Committee, Yunnan's cane sugar production greatly developed because of the emphasis and support given by government, treasury and financial departments at all levels to the cane sugar industry. In the 1986-87 pressing season, 1.32 million mu of sugar cane was planted in Yunnan Province, each agricultural unit produced 4.01 tons, and the gross output of sugar cane reached 5.29 million tons. Comparing the 1977-1978 pressing season, there was a 108.2 percent increase in area planted, production of agricultural units grew 59.4 percent, and the gross output of sugar cane produced increased 231.1 percent. The province built 66 sugar refineries with a daily processing capacity of 50,000 tons. Cane sugar output reached 515,000 tons, and the industry achieved a gross output value of 557 million yuan and garnered 160 million yuan in after-tax profits, of which more than 67 million yuan was turned over to the higher financial authorities. Comparing the 1977-1978 pressing season, cane sugar production capability more than quadrupled, cane sugar output increased 280 percent and the gross output value of the industry and after-tax profits increased 470 percent and 271 percent respectively. Cane sugar output leaped to third place in the nation, and over 300,000 tons of cane sugar were moved out of the province.

The development of cane sugar production first of all gave rise to economic prosperity in the borderland regions. In 1987, the industrial and agricultural output value of cane sugar made up 60 percent of the gross

industrial and agricultural output value in Dehong Prefecture, and peasants living in the cane sugar regions earned an average of 175 yuan planting sugarcane. Viewing the situation province-wide, peasants planting sugar cane can earn over 300 million yuan annually. Second, financial departments also increased income. As cane sugar production developed, the tax revenue of Yunnan increased year after year. The 57 million yuan in taxes from cane sugar products paid to financial departments in 1987 was 147 percent of the 38.64 million yuan paid in 1980. Tax revenue from cane sugar ranks second among tobacco, sugar, tea, and wine and is a primary source of tax income in Yunnan. According to preliminary statistics, the sugar industry turned over 320 million yuan of tax revenues to higher financial authorities during Sixth 5-Year Plan period, a 33.3 percent increase over the 240 million yuan paid during the Fifth 5-Year Plan period, an average annual increase of 0.6 percent. Third, social benefits were good. Cane sugar is a primary raw material in the food industry and the price of cane sugar has been basically stable for many years. Because of the impact of prices, sugar enterprises in Yunnan have earned slim profits. In the 1987-88 pressing season, deducting price subsidies, Yunnan's cane sugar enterprises had profits of only 13.05 million yuan and the profit rate on output value was only 2.3 percent. The state adopted a policy to increase subsidies in order to stabilize sugar prices. Non-staple food processing industries using cane sugar as a raw material were not affected by the rise in raw material prices and consumers benefitted also. Fourth, foreign exchange has been saved has been benefitted construction of the Four Modernizations. China lacks sugar and every year must spend large amounts of foreign exchange to import sugar. The rapid development of Yunnan's cane sugar production during the Sixth 5-Year Plan period enabled Yunnan to have a surplus of sugar. In each of the last two years, nearly 300,000 tons of cane sugar have been moved out of the province and, if we base our calculations on the current international price of sugar, this alone has saved the nation over \$60 million in foreign exchange.

## II. Problems That Exist in the Development of Cane Sugar Production

A. Comparing input and output, the investment results are less than ideal. The development of Yunnan's cane sugar production cannot be separated from the huge amount of funds invested in it. According to statistics, a total of 750 million yuan was invested in Yunnan's sugar industry from 1981 to 1987. At present, nearly 600 million yuan of fixed assets have been created. Of this, funds invested during the Sixth 5-Year Plan period reached 590 million yuan, which was 370 percent of the total investment between 1953 and 1980. Although investment has increased, the investment results have fallen. Between 1953 and 1980, Yunnan's cane sugar refineries realized 698 million yuan in after-tax profits and an investment of 100 yuan brought in 28.24 yuan in after-tax profits (based on the average calculation of increased tax revenue for each period). Between 1981

and 1987 Yunnan's sugar refineries realized 727 million yuan in after-tax profits, 15.17 yuan for every 100 yuan of investment, which is lower than the level for years prior to 1980.

B. The inability of sugar cane output to meet the increased production capacities of sugar refineries affected the development of economic results of the sugar refineries. In the 1986-87 pressing season, 1,237 million mu of sugar cane was harvested in Yunnan, each industry unit produced 4.07 tons, and 5.03 million tons of sugar cane was processed. But, in that pressing season, the 66 sugar refineries had a daily processing capacity of 50,000 tons. Based on calculations for the first 120 days of processing, they were short one million tons, and 40 percent of Yunnan's sugar refineries were not operating at full capacity. Predicting that during the Seventh 5-Year Plan period sugar refineries will have a daily handling capacity of over 57,000 tons of sugar cane we will need to increase our sugar cane planting by over 400,000 mu to ensure the plants will operate at full capacity. If sugar refineries do not operate at full capacity, economic results will be adversely affected. Based on analysis of pertinent data, in the next few years cane sugar production will drop by 100,000 tons annually, production value will fall by 126 million yuan and after-tax profits by over 36 million yuan because plants are not operating at full capacity.

C. Sugar refineries are heavily burdened by loans, enterprises can not repay loans, and the period is long for return on investment. At the end of the 1986-87 pressing season, Yunnan's sugar refineries had 390 million yuan of outstanding debt in fixed assets and loans. By the end of 1987, because more plants went into production, outstanding loans rose to about 500 million yuan. Viewed from the loan handling capacity of sugar refineries, there are two problems. First, because of low sugar prices, the State has to reduce the tax on sugar and increase subsidies, and enterprises make meager profits. In the 1986-87 pressing season, the tax on a ton of sugar decreased 147 yuan compared to the years prior to 1980. But the cost of a ton of sugar rose 221 yuan. Even with a subsidy of 90-100 yuan, the profit on a ton of cane sugar was only 26 yuan. Yunnan's cane sugar refineries had a marginal rate of return on investment of only 3.24 percent. This wasn't even enough to pay the interest on their loans. The other problem is unit investment increases, aggravating the burden on enterprises to repay loans. During the Sixth 5-Year Plan period, unit investment by Yunnan's sugar refineries increased 3,700 yuan in daily processing capacity over that prior to the Fifth 5-Year Plan. Based on calculations of the increased production capacity of Yunnan's sugar refineries during the Sixth 5-Year Plan, an increased investment of over 100 million yuan was needed. An increase of 6,000 yuan for the initial period of the Seventh 5-Year Plan will be needed over the final period of the Sixth 5-Year Plan, according to calculations of the new increase in daily processing capacity for the same period, will require increased investment of 4.2 million yuan. The profits of

Yunnan's sugar refineries are falling, but investment is increasing. It is clear that Yunnan's sugar refineries have difficulty repaying their loans. As for the ability of the sugar refineries to repay their loans, in the two pressing seasons of 1985-86 and 1986-87, the average repayment was 54 million yuan, 28 million yuan of which was interest. Based on an analysis of pertinent data, as Yunnan's sugar industry develops, based on calculations of normal sugar production, it has the capability to repay 70 million yuan of loans each year and about 10 years will be needed to completely pay off the principal and interest on the loans.

D. Reduced income to financial departments. Viewed from the present situation, in operating a sugar refinery, more income goes to banks than to local financial departments. Since the Sixth 5-Year Plan, Yunnan's sugar refineries have obtained new increases in fixed assets primarily by relying on bank loans. After 1985, the interest rates set by banks to sugar refineries rose from 4.2 percent to 10.08 percent and bank income correspondingly doubled. But local financial departments have only slight increased income for helping sugar refineries to repay their loans through tax reductions. According to statistics, financial departments have increased income by 19 million yuan annually from operation of sugar refineries from 1981 to 1987, but banks earned an average of 20 million yuan annually in interest.

E. New construction and expansion of sugar refineries have been indiscriminate. Places like Jianshui and Yuanmou have only considered their own suitability for planting sugar cane and have not considered the relationship of interests from peasants planting sugar cane and other economic crops. Because of blind expansion of sugar refinery production capacity, existing sugar refineries do not operate at full capacity and have low economic results. In the 1986-87 pressing season, the sugar cane handled by the plants only reached 30 to 50 percent of the design capacity of the plants. Such sugar refineries as Maguan and Simao Mengda do not have the right conditions, and they have blindly constructed plants to look after the local interests. As a result, the locale has little area suitable for planting sugar cane, the sugar quality has been poor, the rate of sugar output has been only 8.7 percent, and the cost of a ton of sugar has exceeded 1,300 yuan. As the sugar refineries have been put into production in the last few years, losses have been annual occurrences and enterprises do not have the capital to pay their debts.

F. Poor enterprise management and economic results. In the 1986-87 pressing season, the two primary economic indices of Yunnan Province's sugar refineries have been lower than the national advanced level. The average rate of recovery for sugar has been 82 percent in Yunnan, and 92 percent in the rest of the nation. The ratio of standard coal equivalent and sugar cane is 8.75 percent in Yunnan, but 5 percent in the rest of the nation. The average profit rate on 10,000 tons of sugar cane in Yunnan

Province is 86,600 yuan and tax from this is 300,000 yuan. But at the Dongjiangmen Sugar Refinery in Guangdong, the profit rate on 10,000 tons of sugar cane is 510,000 yuan and tax from this is 430,000 yuan. Yunnan pales in comparison. At the same time, Yunnan's sugar refineries have insufficient comprehensive use and development of new products. Comprehensive use of output value is only 8.8 percent for sugar products and accounts for 0.5 percent of after-tax profits. But at certain sugar refineries in the interior, after-tax profits from comprehensive use exceeds the output value of new sugar products by over 50 percent.

### III. Thoughts and Proposals

A. Make great efforts to develop sugar cane production. While developing existing sugar cane bases, open up and develop new bases. Yunnan has nearly three million mu of cultivated land suitable for planting sugar cane. Considerable undeveloped land and hillside fields can be developed and used. There is great potential for developing sugar cane production. Over the last eight years, Dehong Prefecture has continually reduced the area sown to grain and yet grain production has increased 4 percent each year. The area sown to sugar cane has gone from 100,000 mu in 1979 to 340,000 mu in 1987 and output has gone from 235,000 tons to 1.18 million tons. Because their grain foundation is stable, they can adjust their industrial structure to gain the wealth of both grain and sugar cane. Their experience is worth spreading. At the same time, we should use liberal methods and invite contractor bids to attract capital, technology, and talent to open up undeveloped land and hillside fields and expand the sugar cane planting areas.

B. We should raise money from local financial departments and society and offer stock to investors to help the sugar refineries pay off their loans ahead of time. Also, we should create conditions to allow enterprises to possess the ability for self-development and to promote increased revenues for local financial departments, and give full play to the advantages of the cane sugar industry. Yunnan's sugar refineries are heavily burdened by loans. Based on the calculation that it will take 10 years to pay off the principal and interest on the loans, the local financial departments will have to forego 475 million yuan in after-tax profits and the enterprises will have to pay 740 million yuan. But if 30 million yuan is added to the investment in Yunnan's sugar refineries each year, after 5 years the investment amount will reach 150 million yuan and sugar refineries can pay off the principal and interest on their loans 5 years ahead of time. By paying off the principal and interest on loans ahead of time, from an enterprise perspective, 15 million yuan less will be paid each year (at discount and after tax retained interest). Thus, they would have stamina for development. From a financial department perspective, 48 million yuan of additional income would flow in each year (new increases in various kinds of tax revenue). Comparing the two alternatives, if income is greater than investment, why not go ahead with it?

C. Looking at construction of sugar refineries in all its facets, production capabilities should not be further expanded. Investments during the end of the Seventh 5-Year Plan and the beginning of the Eighth 5-Year Plan should primarily be used to revise the technology of existing plants, engage in comprehensive utilization, alter the product mix, and put into a food processing industry that uses cane sugar as the primary raw material.

D. We should establish a management-type sugar enterprise group so that production, supply and sales of cane sugar are united. We should destroy administrative barriers and have a unified plan that cuts across regions and brings together an association of sugar refineries.

This will help the sugar refineries follow a path of management and export orientation that promotes the formation of a food processing industry spearheaded by cane sugar. We should establish an industry group among the regions with concentrations of sugar refineries to be led by a single, large sugar refinery. Also, we should combine the economic interests of peasants and sugar refineries by selling enterprise bonds to the peasants. The sugar industry group, state-run businesses and materials should have contracts (even if it is only a business relation) to ensure that the channels for material supplies and product sales are unobstructed. By changing the current practice of separating industry and commerce, we can form an integrated body with close economic interests.

**Review of Book *Traditions and the Chinese***  
40050036b Beijing RENMIN RIBAO [PEOPLE'S  
DAILY] in Chinese 27 Sep 88 p 5

[Article by Wu Jiarui 0702 1367 4213: "Use the Spirit of New Culture To Conduct Rational Introspection—A Review of *Traditions and the Chinese* by Liu Zaifu 0491 0375 1788 and Lin Gang 2651 1511"]

[Text] From the subtitle of the book *Traditions and the Chinese*—Further Introspection and Review of Several Basic Themes in the May 4th New Culture Movement—we can see what the authors intend to express. About 70 years have elapsed since the May 4th Movement. The main goal of this movement—reviewing Chinese traditional culture and criticizing nationalism—is not only not outdated but also in greater need to be re-examined by the people under today's new historical condition. As the authors said: "China's modernization will be accompanied by continuous self-examination and self-criticism."

Based on what the predecessors of the May 4th Movement achieved, this book makes another analysis of traditional culture and national characters and criticizes the introspection of the May 4th Movement. As we know, traditional culture, nationalism, and the May 4th New Culture Movement have always been the "hot spots" of the research and discussion of cultural and ideological circles in China. Many people have studied and criticized them. Some praise; some censure. Different people have different views. These are common phenomena in the research of this field. Hoping that this book will draw a final conclusion on this issue is an unrealistic expectation. However, when we compare it to other similar books, what is worth noticing is not what it says about nationalism itself but its analysis and criticism of the nationalism issues in connection with the broad backgrounds from which they derived—traditional culture.

At a time when the Chinese nation was suffering from great calamity, the forerunners of the May 4th Movement period first conducted a careful and thorough scrutiny of ancient culture and traditions. Their reviews jointly formed the ideological and cultural peak of "man's consciousness" which was unprecedented in Chinese history. But the May 4th New Culture Movement ended too fast, and many things were left undone. At the time, their criticism of nationalism stayed at the level of revealing the problems. They focused on revealing "what the Chinese and traditions are" but they seldom talked about (or barely mentioned) "why" they are as they are; therefore, their reviews lacked systems and theories.

Based on the above-mentioned thinking, the book *Traditions and the Chinese* carried out further work. First, the authors changed conclusions back to questions. Then, they scrutinized them in relation to a broader

cultural background and asked "why." Here we can use the *Ah Q* issue, which is one of the basic themes discussed in the book—as an example.

The authors first analyzed the connotation of "the method of mental victory." They think that it is merely an agreement on the objective world in the mind of an individual, which is reached by the individual with his or her self. The reality of outside world changes according to the agreement in the individual's mind. Changing the agreement reached by the individual with his or her self can thus alter the world. Then the authors dug further into the philosophical foundation of the A Q'spirit. They point out that the *Ah Q* spirit is a section of "caecum" grown out of Taoism and Buddhism and that Lao Zi and Zhuang Zi's philosophy and Buddhist thinkings have both contributed to a philosophy which believes that "the eternal life of an individual can be reached by crushing and doing away with one's self. The book then switches to the question of how Buddhism and Lao Zi's philosophy control the actual life of the Chinese people and direct the people of this world to the endless wrong road." In conclusion, the authors use the value scale of "man," which they verified by themselves, to re-evaluate Buddhist and Lao Zi's philosophy of life. They think that their in-depth value is identical with that of the Confucian school; they are both to "do away with 'man'." The authors also stated their outlook on life. They say: "The reason that a great country and nation is great is not because what it has created and how far it has developed but because it has inexhaustible desire and ability to create. This is the true meaning of life."

Compared with articles written by Lu Xun and other thinkers of the May 4th Movement, this book does not have many earth-shaking ideas, but the authors do not intend to "shock" us or shake the firm "present." All they intend is for us to take a clear look at some familiar "faces" and recognize some truths which may have already forgotten by us. If we say what the forerunners of the May 4th Movement held was a "mirror," then what the authors hold is a "X-ray machine." The former reflected ugliness; the latter shows the root cause of the disease. The former burned the numb soul of the people with passionate emotions; the latter looks for hidden truth with cold reason. We do not have to agree with their analysis, but we should welcome their methods. What we need now is a cool head, profound analysis and penetrating judgement reached after careful consideration and conscientious study.

The two authors demonstrated another characteristic in the book—the spirit of practical criticism. The so-called practical criticism means that when we evaluate a theory, we do not judge by its ideal state but by its functions in real life. Namely, actual results are used to determine whether a theory is good or bad and whether it should be adopted or eliminated. Such a concept of criticism should be applied especially to the theory of humane studies which are closely related to reality. We should not consider only the beauty of form and the ideal state

of theory like we discuss mathematical theories. In other words, when we discuss a theory, we should first consider "what it is" instead of "what it should be."

According to this standard, we should first take a look at how new Confucian assessed traditional culture. In the book *Look at the Modern Meaning of Chinese Culture From the Value System*, Mr Yu Yingshi [0151 5391 2514] states: "In the value system of Chinese culture, the concept of human dignity applies to everybody, including even slaves." The reason is that theories of our ancient philosophers included such ancient teaching as "everybody can be Emperor Yao and Shun." However in the book *Traditions and the Chinese*, the authors use a different evaluation method. For instance, when they talk about Buddhist and Lao Zi's philosophy, the authors first admit that "the universal outlook of extreme relativism and the concept of life value of 'doing away with self' and 'restraining oneself' can lead to two completely different life styles: brave, fearless, and ready-to-die life or cowardly and meaningless life with self-satisfaction." Then the authors point out that the first kind of people are very rare in China and that most people in this society belong to the second category. This has a lot to do with the actual and concrete historical environment of China. Therefore, the authors think that "Buddhist and Lao Zi's life theory and style can be considered as eliminating, restraining, and suppressing the self and subject from the internal life of an individual. In their opinion, we should not ignore thousands of thousands of *Ah Q* just because Buddhism created a Tan Sitong [6223 0674 0681]."

Behind the difference of such evaluation standards, there is a philosophical difference hidden deeply somewhere; that is the one-divides-into-two method and the theory of the whole. Idealists are zealous about the one-divides-into-two method. They like to separate theory from reality and "chop a theory into eight different pieces." Of course, this does not mean that the authors of the book "Traditions and the Chinese" have no problems with their thinking methods. We do not need to hide the fact that the authors sometimes also depart from their original intention and slide from the theory of the whole to the method of one dividing into two.

I think that in the future review of Chinese traditions and culture, we need to promote the "concept of practical criticism" and the "philosophical concept of viewing the situation as a whole." On this issue I agree with Du Weiming's [2629 4850 2494] view that "the ideological challenge confronting scholars at home and abroad is the same, not different." This challenge is whether or not our understanding of traditions and culture can go beyond the simple method of one dividing into two used since the period of the May 4th Movement.

### Movie, Television Versions of 'Last Emperor' Reviewed

40050036a Beijing RENMIN RIBAO [PEOPLE'S DAILY] in Chinese 27 Sep 88 p 5

[Article by Huang Shixian 7806 1709 2009: "Poetic Drama vs. Historical Drama: Each Has Its Own Merits—A Review of Two Versions of *The Last Emperor*"]

[Text] Not long ago, two versions of *The Last Emperor* derived from the same historical subject were released almost simultaneously, causing confrontation between the movie and television industries and competition between the East and the West. This has become a major event of great significance of modern culture.

The life of Fu Yi—the last emperor of Chinese feudal dynasties—as a "man" stretched across two centuries: the old and the new. His rises and falls, his numerous calamities, and many unique historical legends have not only fascinated Chinese artists but made Bertolucci, who is known as the "movie poet" in Europe, obsessed with this story. This enables the history and arts of the Eastern and the Western hemispheres to cross suddenly before the eyes of modern viewers.

The artistic objective of both the film and the television show of the same title obviously goes beyond the stereotype of "palace dramas" which are often devoted to secret stories inside the palace. The objective of both is to seek new meanings while allowing artistic images to be permeated with historical thoughts and poetic emotions. We should say that it is a very difficult distillation of arts which gives both the movie and the television show a valuable quality and color of history.

When we compare the two works from the historical and aesthetic points of view, we would be shallow if we preferred the Chinese production because it is the "quintessence of Chinese culture;" however, we would not be exactly open if we jumped to conclusions and praised the foreign production because it is directed by a foreigner. In my opinion, the key is not to find out which is better but to discover the strong points of each side in order to enhance our aesthetic awareness of creative treatments of historical themes.

The motion picture *The Last Emperor* boasts the style of poetic drama, stresses the discovery of human feelings, and is natural and unrestrained, like all European movies. Strictly speaking, what is presented on the screen is a Chinese fairy tale seen through the eyes of a European. In his early years, Bertolucci learned a rudimentary knowledge of the art from Rossellini, the master of "poetic movies." Later, he rose to fame in the world movie circle with such works as *Drifters* and *The Last Tango in Paris* and became one of the most appealing directors in the "new movies" of Europe. In early 1980's, his artistic life suffered a setback and he disappeared from public view for three to four years. Trying to free himself from his predicament, he went to China to look for artistic

inspiration. Fu Yi's autobiography *From an Emperor to a Civilian* (Chinese Edition: *The First Half of My Life*) had an immeasurable impact on him. From this book he found an oriental "complex of supreme imperial power" which, as a historical spirit beyond the reach of mankind, suffocated and twisted mankind. Even Fu Yi could not escape such a historical tragedy.

At the beginning of the movie, showing Fu Yi being crowned at the age of three, Bertolucci focused on only one detail. In the scene of the solemn crowning ceremony, all young Fu Yi wants is to catch a cricket while the yellow curtain, which is the symbol of imperial power, rises higher and higher in the wind. This obviously has created an image that permeates the whole film: the confrontation of human feelings and imperial power.

What Bertolucci portrayed through Fu Yi is by no means an isolated case of "last emperor." Rather it is a historical spirit of "supreme imperial power" which is far from being extinct in Asian civilization. The story is about the "last" emperor, but the theme of the film is just the opposite—that Fu Yi is not the last emperor. Toward the end, the poetic quality is elevated to create many unsurpassed scenes. In one scene, red guards are singing "songs of rebels" and marching the street during the upheaval of the "cultural revolution" while Fu Yi, who has become a gardener, pushes a bicycle and looks on as an outsider. He even walks close to the "little rebels" and defends the former governor of a war criminal detention center, who once educated him and is now being accused and denounced in the march. In another scene, old Fu Yi goes to the Imperial Palace as a tourist. When he tries to climb the red stairs in the throne room, a child wearing a red scarf (who calls himself the son of the "guardian" of the Imperial Palace) stops him. In order to prove that he used to be the emperor of this palace, he reaches behind the imperial seat and amazingly takes out the can in which he hid a cricket when he was enthroned years ago. (What is more amazing is that the cricket is still alive after 60 years and even climbs out the can, which obviously can happen only in a fairy tale.) These two scenes apparently are not historical facts, but they are a poetic and artistic summary of historical reality. Despite the absence of an emperor, the historical spirit of "supreme imperial power" seems to be still wandering about in the nether world.

This is obviously a European's fantasy with modern humor created by seeing the East through the eyes of the West.

But a real creative fantasy should originate spontaneously from real historical relations and their inevitable movements. When making a movie or television show, it is admirable for one to show a "powerful and unconstrained" style but there must be a limit, which is the reality of history that conforms to the law of necessity and possibility. Reality is, after all, the artistic lifeline of

any form of creative activities based on historical materials. For instance, in the scene of Cixi's death, her bedroom in the palace is inappropriately turned into a temple surrounded with figures of Buddha; thick incense smoke and ferocious Buddhist statues are used as metaphors for the ghastly and bloodcurdling imperial authority of feudal society; and the ceremony of choosing a successor is turned into a witch ritual. These practices can only be called shallowness. In the scene of the wedding night, Queen Wan Rong smears the emperor's whole face with lipstick marks. This is way too far from the upbringing, disposition, and status of a princess. It also contradicts palace etiquette. In my opinion, such "Westernized" concepts and "half-cooked Western rice" are mediocre products and not worth learning.

A handicap which Bertolucci cannot overcome for the time being is that as a European, he does not have a thorough understanding of Chinese history. Because of this, he is unable to portray a man according to real historical relations and their inevitable movements. In his film, only a few characters such as Fu Yi, Zhuang Shidun, and the governor of the war criminal detention center have a relatively clear artistic focus, and other characters are either empty or vague, failing to form a complete, artistic world of historical sense.

The television show "The Last Emperor" boasts the style of historical drama, stresses the description of history, and uses the traditional Chinese "writing style of the Spring and Autumn Annals" to depict history and men. "Accurate but not superfluous, plain but not vulgar," it represents a very pure and simple national characteristic.

Where is the artistic subject? To answer this question, we have to proceed from the special form of narration used in the television series. The subject can only be hidden in the process of artistic narration. The playwright-director of the television series depicts history through the aesthetic angle of tragicomedy, and weaves Fu Yi's personal fate into several major historical events of Chinese modern history to reflect the humiliation, darkness, and absurdity of that period of history, causing people to reexamine history.

The value of this television series is its authenticity. It takes full advantage of the schedule of the television series and depicts a historical period that covers almost half a century from Fu Yi's enthronement in 1908 to the special amnesty of 1957. To summarize history, the playwright-director uses the "lucky grass," which symbolizes imperial orders and authority, as a leading motive of the story and keeps a strong hold on the hidden power line of the story—namely, from the anxiety of breaking out of the "imperial circle" to the infatuation of the "imperial dream" and to the complexity of human feelings. These are the outlines of Fu Yi's personal life experience in historical turmoil and have irreplaceable value in the understanding of history.

On the portrayal of characters, the television series is good at catching historical contradictions and cultivating them into dramatic conflicts with great ups and downs. It places the leading character Fu Yi under the focus of contradictions and conflicts and paints him with dark and heavy colors. It did not produce a simple mask with historical merits and crimes; nor did it devote lengthy footage to details of palace inside stories. Rather it reveals Fu Yi's personality and his inner state of mind during the complex historical upheaval which concerns the rise and fall of the nation. Zhang Meng [1728 5492], Cai Yuanhang [5591 6678 5300], Chen Daoming [7115 6670 2494], and Zhu Xu [2612 2485] played Fu Yi as a child, juvenile, youth, and old man respectively. For instance, actors have very vivid performance of their roles in Part 9, "Cutting the Pigtail"; Part 11, "Failed Attempt To Exit the Palace"; Part 15, "Shufei's Divorce"; Part 17, "The Crowning of A Puppet Emperor"; Part 23, "Testifying at Court"; (Tokyo's Far East International Military Court for War Criminals); and Part 26, "Choosing A Successor" (in the war criminal detention center). Chen Daoming did an outstanding job in focusing on Fu Yi's nervous or manic behavior which was one of the many facets of his personality.

Another artistic achievement is the special environment of history created by the detailed projection of many images, palace etiquette, and folk customs. We have to mention especially the achievements of many famous artistic performers of special talents, such as Zhu Lin [2612 3829] who played Cixi, Lan Tianye [5663 1131 6851] who played Prince Chun, Niu Xingli [3662 2502 7787] who played Zhang Qianhe, Tong Chao [4547 6389] who played Yi Kuang, and Li Daqian [2621 1129 0578] who played Yuan Shikai. These characters formed

a circle of royal and official figures around Fu Yi with special, and unique historical credibility. I think that this cannot be surpassed by any artist of foreign nationality and culture.

In regard to artistic expression, some scenes and details are artistically refined on top of being realistic. They can be viewed, admired, and savored over and over again. For instance, when Fu Yi was crowned at the age of three, the nation was in deep mourning. Royal musical instruments were shown but not played at the grand and solemn crowning ceremony, showing a trace of desolation of a declining world. Here the camera catches another detail. In order to calm young Fu Yi, who is restless because he has to go to the bathroom, Prince Regent Zai Feng says to him: "It is over. It is over. It soon will be over!" This is obviously a pun and a prophecy. (The young emperor, however, still wet the imperial seat.) Such scenes treated with humors of tragedy-comedy are realistic as well as metaphorical. They imply that the end of this last dynasty is close. These scenes in the beginning part of this television series serve as an analysis of historical humor for the "cross-century" riddle of Fu Yi.

We also need to point out that this 28-part television series obviously still faces some partially inconsistent or incoherent problem in the general artistic expression. In some places, it overemphasizes authenticity and becomes trivial, slowing or dragging out the development of the plot. Due to a lack of historical and story materials, some parts present only the surface, not the depth, of history. The last four parts are devoted completely to the theme of "Reforming the Emperor" and the final part is "Amnesty," making the whole film look like a stereotype which fails to provide food for thought. It would seem that we need to further liberate our artistic creativity.

### Achievements of Huang Xianxiang in Missile Alignment

40050042b Beijing BEIJING KEXUE BAO [BEIJING SCIENCE AND TECHNOLOGY NEWS] in Chinese 20 Aug 88 p 1

[Article by Shi Qing 4258 1987 and Zhang Yuying 1728 3768 3853: "Notes on Associate Professor Huang Xianxiang 7806 0341 4382, Expert on Guided Missile Launch Alignment"]

[Text] During the late fall of 1987 in a simulated training room not even 40 square meters in size, a domestic modern strategic missile simulated alignment system was pioneered using microprocessors, laser optical sighting equipment, laser dish [3423 0342 4149], and various other pieces of specialized equipment.

This simulation system amazed the experts and professors appraising it with its realistic effect, read out speeds, and grand scale of missile alignment operations.

This first successful network utilizing the advanced technology of laser optics and sound readings, computers, and large scale mechanized equipment opened an entirely new area in the special study and training of our military strategic missile alignment. This is a development by China's first generation missile alignment expert Huang Xianxiang; it is a simulator of world standards and has received awards for advanced work for four consecutive years, and seven scientific research achievements awards.

This outstanding instructor who shoulders the critical education task for the military wrote a moving song to point out a string of dazzling jewels from scientific research.

Midwinter in the north, with silver and white clothing. A launch site surrounded by hills, a green "huge dragon" stands on the launch pad, our guided missile valiant fighters are extremely happy, they are carrying out a live launch. "Attention all hands," suddenly the launch battalion commander issues an unexpected order, "cease operations." This order was just like a dipper of cold water being poured over the heads of the cadre and fighters. The air at the launch site seemed to immediately solidify, causing the men to feel like they were suffocating. It turned out that the launch alignment equipment had developed a malfunction. The launch alignment system is the missile's "thousand li eyes." When the "eyes" develop a problem it is difficult to hit the target. The malfunction was corrected but the launch time had elapsed by two hours. What will this mean to our nuclear counterattack units?

Huang Xianxiang, conducting a site inspection, was pained by this. He clenched his fist and said with determination: "this backward instrumentation must be improved."

To renovate sophisticated weapons and equipment, not only is a broad level of knowledge needed but also one must assume big risks. This undoubtedly confronted mechanical engineering expert Huang Xianxiang with difficult obstacles to overcome.

The 1978 National Scientific Conference inspired Huang, he utilized his time when not teaching to tenacious self-study of optics, electronics, automatic control, and computers, and also with conducting scientific experiments. In cooperation with others, two years of hard work, and more than 100 tests, he successfully developed China's first strategic missile semi-automatic alignment instrument and initiated a precedent for renovating sophisticated weapons and equipment for unit use. This semi-automatic alignment instrument effectively reduced malfunctions while raising the precision of stability and alignment. These instruments were quickly dispersed for use. Among these, the Huang designed transistor signal instrument has been used by concerned units in the launch system of the Long March series rocket and satellites.

During missile launches, sometimes "false readings" confuse the "launch controllers." It is normal practice that prior to a missile launch and after alignment the needle on the electric meter automatically points to "0." But sometimes the indicator needle returns to "0" before alignment is completed with sufficient precision. This phenomenon is termed "false zero." Huang calls this "sand" in the "eyes" of the missile, and regards it as a big obstacle in alignment. He has pledged to clear away this "sand."

Starting in 1982, Huang Xianxiang, working on the basis of his semi-automatic alignment instrument, developed a new generation missile alignment instrument that is functionally stronger and more suitable for use in units. Solving difficult problems occupied almost all of his time outside the classroom. This year his educational tasks exceeded by 35 percent their expected quota, his eight hour day is already very full. His scientific research time must be taken by minutes and seconds outside class. Sometimes he is so busy that he forgets to eat three meals a day.

After more than 100 tests he finally attained success. This achievement enabled our strategic missile alignment instruments to go from the electron tube stage of the 50's through the transistor stage of the 70's, and to jump into the new large scale integrated circuits stage of the 80's. The "sand" in the "eyes" of the missile has been cleared away.

Not long ago a notice was sent to Huang informing him he could bring his integrated circuit signal instrument and attend a strategic missile combined exercise jointly organized by the 2nd Artillery corps, National Defense Science, Technology, and Industry Commission, and the Ministry of Aeronautics and Astronautics. This exercise brings together skilled personnel from the three major

forces in China having space facilities. It is an extremely good opportunity to test equipment and make innovations and show achievements.

During this time, Huang was developing another important part in the alignment system—the missile horizontal measurement device. Working in both education and scientific research took so much time and hard work!

Huang Xianxiang goes all out in his work! He worked both night and day utilizing every second that he could; when the weather gradually became warmer he worked in sleeveless shirts that were soaked by his sweat. At one point his heels, waist and back hurt so much he could hardly stand it. A doctor told him “your right heel has developed a bone spur, and the thoracic and lumbar vertebrae have a very serious hyperplastic condition.” He didn’t take time to have them treated but just continued working day and night.

When the strategic missile combined exercise began, Huang had developed a horizontal measurement instrument that had an advanced level of precision a notch above that of previous instruments. This instrument, along with the integrated circuit photoelectric signal device, received special interest from the leading departments at the exercise and it was decided that these two instruments would be used during the live test launch.

When Huang heard this news he didn’t take time to catch his breath but took his instruments and rushed off to the steam emitting (mist) Southern Xinjiang and to northern China where dripping water freezes. He participated in four live launch tests with the following results: The technology level of his two instruments met the designed requirements and ranked first among domestic electronic alignment specialties.

In ten years Huang produced seven achievements in the scientific research area of missile launch alignment. He used his intelligence and hard work to polish the “thousand li eyes” of the strategic missile to a dazzling shine.

## CENTRAL-SOUTH REGION

### Problems in Hainan Analyzed

40050439 Hong Kong CHENG MING  
[CONTENDING] in Chinese No 130, Aug 88 pp 24-25

[Article by special correspondent Hsiao Ch'ung 2556 0394: "There Is a Call for Redress in Hainan; the Founding of Hainan Province Is Beset With Difficulties"]

[Text] The building of Hainan Island into a province is fulfilling the long-cherished wishes of many of the people of Hainan and making most of them truly happy, but those doing the work are certainly not enthusiastic about it and a situation has arisen where "those outside of Hainan are for it and those in Hainan are against it." According to those at a cocktail party that was held several months ago in Hong Kong to celebrate the founding of Hainan Province, one of the reasons for this is as follows:

#### The People of Hainan Do Not Believe the CPC Central Committee

The cause of the situation where "those outside of Hainan are for the founding of Hainan Province and those in Hainan are against it" is that the people of Hainan have become thoroughly confused by CPC policy swings and are not likely to believe the CPC's "rhetoric" again.

When Lei Yu [7191 1342] was in charge of Hainan from 1983 to early 1985, although he was unable to plan an organizational system for turning Hainan into a province, he still won privileged policies for Hainan (CPC Central Committee "Document #11"), which inspired and made the people of Hainan very enthusiastic. Most of Hainan's many modern infrastructures were built in those 2 years. But in an "automobile incident" in 1985, "Document #11" was tossed to the winds and the enthusiasm of the people of Hainan was finished with one stroke.

Although the authorities are now founding Hainan Province, the 1985 incident is still fresh in the memories of the people of Hainan, the cut is still painful, foreign capital is tied up, cadres are indolent, and the people of Hainan are still stuck in a state of hopelessness.

#### The Demand for Redress of the Automobile Case Is Growing Louder

The people of Hainan feel that the way to restore their faith is not by the CPC making Hainan a province in name or giving certain privileged policies as before, but by thoroughly redressing the unjust, false, and misjudged cases that were created in the raging tide of the so-called automobile incident in 1985. If these cases are not redressed, the people of Hainan will have no initiative.

Although Lei Yu has been gone for some years and the matter for which he was removed from office and investigated in August 1985 has never been redressed, he was recently reelected as vice mayor of Guangzhou. He gives no thoughts to a personal redress and admits that he certainly conducted himself improperly in 1985. But many cadres in Hainan feel that if Lei Yu's case is not publicly redressed, it will be hard to convince Hainan cadres of the government's good faith. Moreover, the cadres who were punished in 1985 by the Central Discipline Inspection Commission and a Guangdong provincial work group (including those who were punished by party discipline, administrative disciplinary measures, and the courts) have recently been demanding redress one after another.

The protagonist in the "HAINAN RIBAO smuggling case" that created a furor in 1985, HAINAN RIBAO's editor-in-chief Guan Xin [7070 2946], was sentenced to prison for corruption. He said that he was framed, has demanded redress, and was recently released on parole. A person in the know says that the job of retrying and redressing many cases is underway and that the whole automobile case may be redressed.

Xu Shijie [6079 1102 2638], secretary of the CPC Hainan Province Work Committee, has confirmed that some cadres who made only common mistakes because they were inexperienced, procedures were unclear, or there were general problems, were arrested and sentenced severely for minor offences even when they were innocent. He thinks that only by redressing misjudged cases and retrying cases one by one according to legal formalities can the cadres' misgivings be dispelled and everyone be inspired to trust policies boldly.

#### The Central Discipline Inspection Commission Destroyed Hainan's Vitality

Right after Lei Yu was put in charge, Hainan Island was beginning to develop very well. The people of Hainan say that it was the Central Discipline Inspection Commission's mishandling of the "automobile incident" that destroyed Hainan's vitality.

Hainan has become a victim of the strife between the CPC's reform and conservative factions. A non-native Hainan cadre said that the reform faction wanted to make Hainan a good example, but the conservative faction seized upon the "raging tide of the automobile incident," made a big issue of it, and used its control of the Central Discipline Inspection Commission to handle it strictly and rectify the reform faction. In 1985, Ren Zhongyi [0117 0112 1138] from Guangdong Province and Xiang Nan [7309 0589] from Fujian Province were both sent away to frontier stations because of this strife.

In fact, the Central Discipline Inspection Commission forces absolutely do not want Hainan to be run well and will not hesitate to create new unjust, false, and misjudged cases in order to bring about the collapse of

Hainan. If they had had a good point of departure and handled Hainan's "automobile incident" correctly in 1985, they would not have destroyed the continuity of Hainan's reform and opening or caused the people of Hainan to feel so discouraged.

Ren Zhongyi is incensed about this and, in a recent interview in Beijing with a reporter from the Shanghai SHIJIE JINGJI DAobao [WORLD ECONOMIC HERALD], he said the following. "In the course of founding Hainan Province and running the world's biggest SEZ, it is hard to avoid various problems or mistakes. It is important to give aid promptly and absolutely not change policies rashly because mistakes occur. We must truly develop boldly and firmly. For instance, it would have been a good idea to allocate some of the money that was recovered from the automobile incident in 1985 as a development fund for Hainan."

In fact, all of the money that was recovered from the automobile incident in 1985 was plundered by the higher authorities and the sweat and blood of the people of Hainan was not returned. If the money had been allocated for the development of Hainan in 1985, the people of Hainan would have been hopeful, known that the Central Committee's investigation and punishment was a case of curing the sickness to save the patient, been able to correct their mistakes, felt grateful and looked for ways to return the kindness, and continued to develop. But the Central Discipline Inspection Commission acted absolutely contrary to that, carried on its movement, and made cadres at all levels undergo ordeals.

#### Hopes and Disappointments

A veteran Hainan cadre said that it has long been very hard for non-native Hainan cadres to get along with native cadres. Particularly since Feng Baiju [7458 4101 7467] became a "regionalist," all native Hainan cadres have lost confidence in non-native cadres. But Lei Yu is an exception and many local cadres wish that he would be put in charge of Hainan again. They say that if there was a democratic election by the people of Hainan for governor of Hainan Province, Lei Yu would certainly win.

Hainan cadres all know and are very happy that Lei Yu was reelected vice mayor of Guangzhou. A cadre who was recently sent to work in Hainan told me that seeing reform cadres, such as Lei Yu, Ren Zhongyi, Xiang Nan (recently sent to do leadership work in the Central Committee Party School), Zhu Houze [2612 0624 3419], and Pan Weiming [3382 4850 2494], being reactivated has given him much peace of mind. He said that these people still being on top or still being able to speak and act publicly proves that all in power are not bad and that there are still hopes for reform.

However, the people of Hainan also have immediate worries and are disappointed about the current situation. This is because an important leader who the Central Committee has chosen to put in charge of Hainan certainly does not have the selfless devotion to Hainan that Lei Yu did.

The PRC National People's Congress announced in September 1987 its approval of the founding of Hainan Province, and HAINAN RIBAO revealed in August 1987 that the proposal to found Hainan Province was being discussed by the National People's Congress. But before this, it is said that this leader who had read the general mood in advance, sent his wife to Hainan to buy two houses because he knew that once the news got out, he could expect Hainan real estate prices to rise for him immediately.

Some cadres in Hainan are whispering that it is very hard to imagine this kind of leader running Hainan as wholeheartedly as did Lei Yu!

#### Factions Have Intervened in the Administration of Hainan

When the Shenzhen SEZ was set up, Wu Nansheng [0702 0589 3932] was sent to run it. Consequently, he took along many cadres from Chaoshan who became known as the "Chaozhou gang."

Each subsequent leadership change added new non-native "blood," each new force "fought" its way in, and Shenzhen's cadres increased rapidly. Moreover, they formed into the "Huiyang gang," the "Guangzhou gang," the "Shaoguan gang," and the "Foshan gang" and made it hard to carry out the work.

It is the same in the present founding of Hainan Province. The Central Committee has sent five cadres to run Hainan, almost all of whom brought along a group of their own forces. It is said that there is now a "Guangzhou gang," a "Shenzhen gang," and the original "Hainan gang."

Most obvious for this is Liang Xiang [2733 4889], who has brought in Zhen Xipei [3914 6932 1014], former vice mayor of Shenzhen, and has decided to bring in Zou Erkang [6760 1422 1660], vice mayor of Shenzhen (who has been unable to achieve his ambitions in Shenzhen under the control of Li Hao [2621 3493] and Qin Wenjun [4440 2429 0193]). Liang Xiang has also been trying to convince Wen Guiqing [5113 6311 3237], director of the Shenzhen Public Security Bureau, to go to Hainan and work as director of the Hainan Public Security Department. It is said that Wen Guiqing has always acted impartially in Shenzhen, has not gotten involved in factional strife among cadres, and has not been moved by Liang Xiang's pleas.

However, many cadres think that it is reasonable for a leader who goes to work in a new place to bring along a group of people whom he is familiar with to help him launch his work, and that this is necessary in order to be able to work well under the present system. They think that this is all right as long as they act truly according to laws and policies, do not form into factions, and work together wholeheartedly with all cadres.

#### **There Are Good Reasons Why Special Policies Are Difficult to Fulfill**

Hainan Province is being founded, the allocation of cadres at all levels is basically completed, and the administration has begun to operate. But internally, the people of Hainan have lost faith in the government and, externally, foreign investors are hesitating and an investment upsurge has not occurred. These two issues have never been able to be resolved.

The issue of the people of Hainan having lost faith in the government has been explained above. The main reason for the issue of hesitant foreign investors is that the authorities have still not announced various laws and regulations and foreign businessmen are waiting to see what the policies will be.

The present founding of Hainan Province is not like the former opening, wherein the Central Committee only issued policies and gave the people of Hainan a free hand to carry them out. This time they are issuing policies, duties, and plans. Thus, the issues are much more complex than in ordinary SEZs.

In late 1987 and early 1988, the Central Committee appointed Liu Guoguang [0491 0948 0342], vice president of the Chinese Academy of Social Sciences, to lead a delegation of 13 researchers on a special visit to Hainan Island to conduct an investigation that lasted for one and one-half months. They wrote a "General Research Report on Hainan's Economic Development Strategy" and nine specific reports. These included many guided plans and duties for Hainan's future development. For instance, each step in Hainan's development was stipulated and an economic division of labor was laid out for all Hainan counties and cities. It was also stipulated that "The aim of Hainan's economic development strategy is to uphold the principle of promoting development with opening and reform, put into practice a guided socialist market economy, finally build Hainan into an export-oriented and multipurpose SEZ that stresses industry, develops industry, agriculture, trade, and tourism simultaneously, and has coordinated development of primary, secondary, and tertiary industries, and strive to catch up to the level that Taiwan was at in the early 1980's within 20 years or so."

A person in the know says that Hainan cannot be counted on to be that "special," and that this report's conclusions were not reached realistically according to objective conditions, but are full of a flavor of officially "preconceived ideas."

Originally, when Deng Xiaoping agreed to give Hainan more decisionmaking power and special policies than the other SEZs in 1983, he raised the call for Hainan Island to catch up to Taiwan within 20 years.

One "automobile incident" has almost set back Hainan's development for 5 years (the system has made it so), and how truly easy it is to talk about catching up to Taiwan in 20 years. Therefore, since Liu Guoguang realized that it would be impossible for Hainan to catch up to Taiwan in 20 years after he had conducted his actual investigation, even though he was under orders, he had to considerably revise his previous "edict," make his report more flexible, change "catch up to Taiwan in 20 years" to "strive to catch up to Taiwan in 20 years or so," and lower the tone of "catch up to Taiwan" to "catch up to the level that Taiwan was at in the early 1980's." This originally objective investigation finally became a demonstration of promises made to the leaders. What a pity for Chinese mainland scholars.

The present situation is that Hainan Island will still have a predominately planned economy and be unable to have a totally free market economy or even reach the level of Shenzhen's present market economy. Many people think that the CPC's motivation for allowing Hainan to take off and surpass Shenzhen came from political (united front) necessity and not from a consideration for the people of Hainan. Thus, they are anxious, have even less of a free hand in things, and feel that this will obstruct Hainan's development for a long time to come.

Hainan's development is faced with many obstacles and much work.

### **NORTHEAST REGION**

#### **Party Organizations in Jilin Introduce New Activities**

*40050062 Beijing DANG JIAN [PARTY BUILDING] in Chinese No 8, 5 Aug 88 pp 17-19*

[Article by Chang Qiao 1603 2884 and Jin Dongyu 6855 2639 4416: "Commendable Efforts, Gratifying Results"]

[Text] To meet the challenges of the new situation, local party organizations at various levels in Jilin Province have actively explored new ways to build up the party and achieved gratifying results. The following are some examples.

#### **At the state-owned Baiyun Machinery Plant: a system for party members to report truthfully on themselves**

Beginning in 1982, each party member has been required to maintain a notebook, in which to report on a quarterly basis on how he has carried out the party organization's decisions, performed his duties and tasks, conducted ideological work among the masses, abide by law and discipline, and handled changes in his thinking, based not only on his own summation but also on opinions

solicited from the masses inside and outside the party. The report is read at meetings of his party group and then submitted to his party branch for comments. In the process, party members ask for the masses' opinions regularly. As a result, relations between party members and the masses have become closer, and it has become a rule for party members to accept the masses' supervision. Party members say: The truthful report on ourselves has strengthened the ties between us and the masses, helped us exercise self-restraint in words and deeds, and encouraged us to set a good example and play an exemplary role for the masses.

#### **At the Liaoyuan City Steel Tube Plant: a Party Member Education Research Board To Promote Research on Party Member Education**

The plant's party member education research board was established in November 1986. Since its establishment, research on party member education has become a permanent item on the plant party committee's schedule. Leading members of the party committee regularly work together with the staff concerned on research activities, drawing up research plans and selecting research subjects, and they also take time to write articles. They have found from experience in the past year and more that the development of research activities is an effective method to explore the new laws and ways for party member education in the new period and a good form of self-education for party members.

#### **At the Taonan City Vegetable Oil Plant: democratic appraisal of the performance of party-member cadres**

To make party-member cadres good servants of the people, the Taonan City Vegetable Oil Plant has developed a system under which party-member cadres of the entire plant are democratically appraised twice a year. Evaluation cards are distributed semiannually by the plant's general party branch to representatives of the rank and file, who will fill in their opinions and demands on every party-member cadre, particularly leading cadres at the plant level, without giving their own names. This practice has enabled the masses to more effectively exercise their power of supervision, increased the pressure on party-member cadres to behave themselves in words and deeds, and thus improved the relations between the party and the masses and between cadres and the rank and file.

#### **At the Liaoyuan Coalmining Equipment Plant: "diagnosis" of the Work of Party Branches and the Exemplary Role of Party Members**

The party committee of the Liaoyuan Coalmining Equipment Plant "diagnosed" the work of party branches and the exemplary role of party members by a comprehensive four-step process. First, "diagnostic" standards were set. Second, a democratic criticism meeting was held, at which party members were criticized by the masses and criticized themselves. Third, discussion

meetings were held by the party committee with different groups of personnel to hear their opinions, and "diagnoses" were made accordingly. Fourth, measures were adopted for reforms and improvement in a planned way. Because the "diagnoses" were based on the party members' actual conditions in thinking and work, they gave the party members a big jolt. As a result, the party members are definitely playing a better exemplary vanguard role.

#### **At the Huinan County Hardware Plant: Rules and Regulations for Party Member Education**

In order to do a really good job in party member education and put an end to the practice of talking a lot but doing little about it, the party committee of the Huinan County Hardware Plant has laid down a set of rules and regulations governing party member education. First, regulations governing the work of the party committee have been drawn up, clearly defining the functions and responsibilities of each member. Second, a responsibility system is established, which spells out the specific responsibilities of leading cadres from the party committee secretary down to the party branch secretaries. This has aroused the leading cadres' enthusiasm to do ideological work among party members. Third, inspections and summing-ups are held periodically. Each month, the work of the party branches, including party members' activities, ideological and political work, and education of activists, is inspected, summed up, evaluated, and compared one by one by the party committee. A party branch's performance in these respects is taken as a factor in determining the material benefits it will receive. Fourth, an information network on party member education has been set up to insure timely understanding of each party member's ideological tendency. Fifth, a system has been established, under which each party member's sense of organization, party spirit, discipline and exemplary role are discussed and appraised.

#### **At the Dashitou Forestry Bureau: Publicity to Their Own Models and Competition in 10 Areas**

Specifically here is what they do: Models representative of the spirit of the times are publicized for education on the requirements for party membership; models representative of the forestry trade are publicized for education on the purpose of the party; and models representative of the bureau itself are publicized for education on carrying forward the spirit of hard struggle and plain living. Party members say: "It is inspirational to listen to one of our own talk about what has happened among us....By comparing ourselves with our own models, we know where we have fallen behind and what and how much we must learn from them to catch up with them." While publicizing the models, the bureau party committee has also organized party members to compete in 10 areas related to the bureau's production and operational goals, namely competitions in innovation, tapping potential production capacities, practicing economy,

cost reduction, quality, efficiency, safety, economic results, being the best, and making contributions. Thus party-building is made to serve economic development which is the central task.

**At the Songjianghe Forestry Bureau: party members mobilized to "make friends"**

There are 1,590 party members in the bureau, who have made friends with 1,686 nonparty members. Their friend-making activities are combined with the training of nonparty activists, performance of duties in business management, helping and educating backward workers and staff members, and solving problems and worries for the masses.

**On Changtong Street, Nangan District, Changchun City: a Three-Level Activity Network Established for Retired Party Members**

There are a large number of retired party members on Changtong Street, Nangan District, Changchun City. They are old, feeble, scattered, and engaged in a wide range of pursuits. In view of their conditions, the neighborhood party committee has established a three-level activity network for retired party members, which includes an activity center at the neighborhood party committee, activity stations at the neighborhood party

branches, and activity groups at the neighborhood party groups, forming a complete educational network for the retired party members with the activity stations as the central link.

**In suburban Changchun: Party-Member Scientific-and-Technological-Service Households**

With the rapid development of the rural commodity economy, in order to enable rural party members to associate more fruitfully with nonparty people, a party-member "scientific-and-technological-service households" campaign has been launched in the suburbs of Changchun City. First, certain party members are designated by the township (town) and village party organizations as scientific-and-technological-service households. Next, the people to be served, tasks to be performed, and targets to be achieved are determined according to the principle of voluntary participation by both sides. To facilitate supervision and inspection, the names of participants are publicly posted. Each party-member scientific-and-technological-service household should have fixed ties with one or two poor families in its own village and help the poor family or families learn a skill within a year. It may provide guidance to people in other villages. Lateral scientific-and-technological services between different townships (or towns) are encouraged.

**Elderly Legislators' Performance Criticized**

40050067a TZULI WANPAO in Chinese 25 Sep 88 p 2

[Article by Ch'en Ts'ui-lien 7115 5050 5571 and Kuo Shu-min 6753 3219 2404: "Senior Legislators Are So Old They 'Have Nothing To Say.' Three-Fourths of the Oldsters Who Account for 70 Percent of Legislators 'Keep Their Mouths Shut.' Silent Majority Corps Votes With a Show of Hands Without Knowing 'Reasons'."]

[Text] Just how much of a role in carrying out the powers of legislators is played by the sensation-causing senior legislators who account for approximately 70 percent of the total, and who have been the objects of controversy for "reporting in for service in the legislature and going home"?

According to statistics collected by the reporters on the number of speeches given during the 80th and 81st sessions of the Legislative Yuan, approximately three-fourths of the senior legislators 82 or 83 years of age did not make a speech from the rostrum during the past year,

and their speeches amounted to only approximately 20 percent of the total number of speeches made. It is most noteworthy that most of the speeches by senior legislators were given by 10-odd legislators who many said to be still hale and hearty. This included speeches given by Wu Yen-huan [0702 1693 3883], who frequently raised procedural questions, and who is noted for choosing his words with care. His speeches accounted for one-third the total for all senior legislators.

Of the 312 legislators who reported for the 80th session of the Legislative Yuan, senior legislators numbered 213. Of the 308 legislators attending the 81st session of the Legislative Yuan, 202 were senior legislators. This was nearly 70 percent in both cases. Despite such an "overwhelming" majority, however, they were responsible in both sessions for only 17.5 percent and 20.6 percent of the speeches made. Conversely, the added legislators, who account for approximately 30 percent of the total, made 80 percent of the speeches. There is a gap in which the two groups exercise the functions of their office, with the added legislators being far out in front.

**(1) Number of Speeches Made by Senior and Added Legislators During the 80th Session of the Legislative Yuan**

Total Number of Legislators: 312			Total Number of Speeches: 1816		
	Seniors	Added Legislators		Seniors	Added Legislators
Number of People	213	99	Number of Speeches	326	1,535
Number of Speechmakers	55	80			
Proportion	25.8%	80.8%	Proportion of Speeches	17.5%	82.5%

**(2) Number of Speeches Made by Senior and Added Legislators During the 81st Session of the Legislative Yuan**

Total Number of Legislators: 308			Total Number of Speeches: 1690		
	Seniors	Added Legislators		Seniors	Added Legislators
Number of People	202	96	Number of Speeches	349	1,341
Number of Speechmakers	46	79			
Proportion	22.8%	82.3%	Proportion of Speeches	20.6%	79.4%

Table 1 and Table 2 show that 158, or nearly three-fourths of the senior legislators, made no speeches during the 80th session of the Legislative Yuan, and during the 81st session, even fewer senior legislators made speeches, the number falling to less than three-fourths.

The number of added legislators making speeches remained at 80 percent or more.

Second, the "minority group" of added legislators, who account for only one-third the total number of legislators, made about 80 percent of the speeches.

**(3) Ranking of Legislators Making Speeches During the 80th Session of the Legislative Yuan**

Ranking	By Total Number of Legislators	By First 10 Senior Legislators
1	Yu Ch'ing [1429 3237], 134	Wu Yen-huan, 98
2	Chu Kao-cheng [2612 7559 2973], 111	Fei Hsi-ping [6316 1585 1627], 40
2	Chang Chun-hsiung [1728 0193 7160], 111	
3	Wu Yen-huan, 98	Ch'en Kuei-ch'ing [7115 2710 3237], 27
4	Wang Ts'ung-sung [3769 5115 2646], 90	Liang Hsu Chun-chu [2733 6079 2504 5468], 23
5	Wang I-hsiung [3769 5030 7160], 86	Li Kung-ch'uan [2621 0361 2938], 14

**(3) Ranking of Legislators Making Speeches During the 80th Session of the Legislative Yuan**

Ranking	By Total Number of Legislators	By First 10 Senior Legislators
6	Hsu Jung-shu [6079 2837 3219], 14	Chang Hung-hsueh [1728 7703 1331], 12
6		Ho Shih [0149 6624], 12
7	Ch'iu Lien-hui [6726 6647 6540], 59	Yang Pao-lin [2799 1405 3829], 9
7		Wang Yu-yang [3076 3342 3152], 9
8	Huang Huang-hsiung [7806 3552 7160], 54	Chang Hsi-che [1728 1585 0722], 6
9	Shen Shi-hsiung [3088 0013 7160], 53	Chang Tzu-yang [1728 1311 2254], 5
10	Jao Tien-qi [7437 7351 1142], 45	Lin Tung [2651 2767], 4
Total	913 times	259 times

Note: Numbers behind names represent number of speeches.

**(4) Ranking of Legislators Making Speeches During the 81st Session of the Legislative Yuan**

Ranking	By Total Number of Legislators	By First 10 Senior Legislators
1	Chu Kao-cheng [2612 7559 2973], 127	Wu Yen-huan, 126
2	Wu Yen-huan, 126	Mo Hsuan-yuan [5459 5503 0337], 33
3	Wang Ts'ung-sung, 125	Fei Hsi-p'ing [6316 1585 1627], 27
4	Yu Ch'ing [1429 3237], 86	Liang Hsu Ch'un-chu, 16
5	Huang Huang-hsiung, 60	Ch'en Kuei-ch'ing, 15
5		P'an Yen-hsing [3382 5888 5281], 15
6	Ch'en Shih-yung [7115 6624 1661], 58	Chang Hung-hsueh [1728 7703 1331], 14
6		Leng P'eng [0397 1756], 14
7	Ch'iu Lien-hui, 53	Li Kung-ch'uan [2621 0361 2938], 13
7	Huang Ho-ching [7086 3109 3237], 53	
8	Chang Chun-hsiung, 47	Wang Yu-yang, 9
8	Lin Lien-hui [2651 5114 6540], 47	
9	Liao Fu-pen [1675 4395 2609], 45	Ch'en En-tz'u [7115 1869 6337], 7
10	Lin Yu-hsiang [2651 6877 4382], 44	Chang Hsi-che, 5
1-		Yang Pao-lin, 5
Total	871 times	299 times

Note: Numbers behind names represent number of speeches.

In addition, Table (3) and Table (4) show that the only senior legislator to get on the overall list of legislators was Wu Yen-huan, the convener of the Procedural Committee. Moreover, Wu Yen-huan gave more speeches than any other senior legislator, his speeches numbering one-third of all speeches given by senior members of the legislature.

It is worth noting that most of the speeches that senior legislators gave in the Legislative Yuan were given by a relatively small number of people who are still hale and hearty, such as Wu Yen-huan, Fei Hsi-p'ing, Ch'en Kuei-ch'ing, Liang Hsu Ch'un-chu, Mo Hsuan-yuan, Chang Hsi-che, Chang Hung-hsueh, Li Kung-ch'uan, and Yang Pao-lin. However, these legislators range in age from 70 to 79, and they still belong to the "young and vigorous faction" among senior legislators who are still feisty. The average age of more than 200 old legislators is between 82 and 83. The main reasons that senior legislators do not give speeches during Legislative Yuan sessions is that they are old and feeble, they have little

energy, and they have no will "to do combat." Once most of the old legislators appear to meet the quorum requirements set by law for convening the legislature, these senior legislators are usually either driven away in an automobile, or set around playing chess and gossiping instead of remaining in the chamber to hear discussions. Should a major controversy arise requiring that they cast a vote, frequently a bell is rung in the chamber, and the old and feeble members of the legislature hobble in as fast as they can to raise their trembling hands unquestioningly along with the Party members. Although the number of speeches given cannot fully express the extent to which a legislator exercises his functions and power, that old legislators give so few speeches, and that they do not concern themselves with the ins and outs of controversies, simply look on coldly, and raise their hands out of habit in support of the ruling party has not only made them objects of denunciation from many members of the public, but has also made them curiosities without peer in all the world!

### Student Unification, Independence Factions Discussed

40050067b Taipei TZULI WANPAO in Chinese  
1 Oct 88 p 2

[Article by Correspondent Chang Hui-chen 1728 1920 3791: "Winds of Unification and Independence Blow Toward Campuses. Student Groups Gradually Split"]

[Text] Reportedly, the unification versus independence battle, about which there has been a high degree of concern on the part of government political factions and the public at large, has been gradually infecting student groups during the past year. Following the summer vacation, in particular, the ideological gap caused by differences in the unification and independence factions has led gradually to a split among student groups. This has caused some concern among persons concerned about the future of the student movement.

Winter and summer vacations are generally the freest times for members of the student movement to plan activities for the following semester. However, during the 1988 summer vacation, there was no contact among student movement groups because of the differences between the unification and independence factions. Several well-informed classmates pointed out that the split resulting from support for unification versus support for independence has created disharmony within student movement groups.

Reportedly, the group that is currently regarded as being a unification faction is the "Democratic Students Union" made up principally of students from Fudan University. The organizations inclined toward independence include the Student Forum Society, the Muddy Water Creek Society, and the Workers Society of Taiwan University. However, the Student Association, the College News Agency and the Portraiture Society, all of which have a fairly free coloration, are regarded as "fence straddlers."

Freshman students who took part during the summer vacation in the "Taiwan Social Study and Practice Battalion," which was organized by the Muddy Water Creek Society at Taiwan University, have reported a strong independent bias among instructors and in subject matter during days and nights of activity, and that department heads were also closer to classmates having inclinations toward the independence faction. Additionally, core cadres in the Democratic Students Union also reported that they had been classed as belonging to the unification faction because of their "confusion." Therefore, since 1987, some activities that cut across school lines have not been recognized or supported by members of all student movement members.

Taiwan University student Huang Chien-hsing [7806 1696 5281], who is currently doing volunteer work in the Taiwan Political and Economic Research Office, said the following with regard to the above formulation. The Student Forum Society can readily find instructors for its new stream system from the Democratic Progressive Party, and Lai Chin-lin [6351 0513 7673], who is pro-new stream, was formerly the head of the Student Forum Society. For this reason, the Student Forum Society has been identified as being a backer of the independence faction, which is no surprise to anyone.

In addition, since many of the instructors and much of the line of reasoning of the Democratic Students Union comes from the Hsiach'ao Friendship Association, Huang Chien-hsing said that very possibly it was for this reason that it is regarded as a unification faction.

As to whether unification and independence have created a split among student movement groups, Huang Chien-hsing said that possibly this is too hypothetical a statement. Nevertheless, inter-collegiate cooperation will still arouse consideration of the issue of unification or independence because of the planning of what is to be included in activities, and what instructors are to be invited. The consequent generation of some small amount of friction or jealousies will be unavoidable; however, it is unlikely that matters will go so far as a drawing of boundary lines on the basis of the unification or independence issue.

Since the Taiwan students movement is currently in a stage of moving ahead, and since the effect of social movements on an overwhelming majority of subjects is very deep, it is difficult to maintain detachment. Therefore, if student movement members continue to make distinctions on the basis of being for unification or for independence, and if they adopt an enemy and ourselves ideology of "whoever is not for independence is for unification," that will hurt both the maturation of the student movement and its longevity as well.

Most college students insist that they still respect individual differences in ideology; however, both independent faction students and unification faction students have freedom of speech about demands for campus reform. There are no differences as to whether the Kuomintang and the San Min Chu I Youth Corps should quit the campus, and that the students should have self-rule; therefore, the controversy over independence and unification should be put aside, and the two factions should link hands in cooperation as the only way of being able to have democratic self-control, and to prepare the students' hearts and minds.