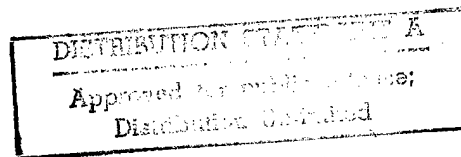


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10 November 1983

CHINA REPORT

ECONOMIC AFFAIRS

No. 397

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICY AND ISSUES

RENMIN RIBAO on Building Socialist Buyers Market (Liu Guoguang; RENMIN RIBAO, 23 Sep 83).....	1
Handling Ratios, Speed in Economic Development (Liao Jili; RENMIN RIBAO, 28 Sep 83).....	10
Report on Sun Yefang Economic Reform Theory (Liu Guoguang, et al.; JINGJI YANJIU, No 20, Aug 83).....	20

ECONOMIC MANAGEMENT

Tapping Potentials of Existing Enterprises Stressed (Ye Lifei; GUANGZHOU RIBAO, 23 Jul 83).....	43
--	----

FINANCE AND BANKING

Need To Ensure Construction of Key Projects Stressed (Wu Xingguo, Liang Jinliang; GUANGMING RIBAO, 17 Jul 83)...	45
Reform of Financial, Accounting Work Discussed (Liu Songjiu; CAIWU YU KUAIJI, No 7, 20 Jul 83).....	50
Need for Localities To Support National Projects Stressed (Zuo Chuntai; GUANGMING RIBAO, 14 Aug 83).....	56
Briefs	
Guangdong Tax-Evasion Check-up	62
Liaoning Tax Evasion	62
Shandong Loan Withdrawal	62

MINERAL RESOURCES

Briefs

Heilongjiang Gold Output	63
Xizang Mineral Resources	63

INDUSTRY

Construction, Siting of Heilongjiang Beet Sugar Mills Discussed

(Rui Xing; HEILONGJIANG RIBAO, 3 Aug 83).....	64
---	----

DOMESTIC TRADE

Features of Flourishing Market Reported

(Yin Shaoxian, Chen Shihe; TIANJIN RIBAO, 31 Jul 83).....	67
---	----

Briefs

Henan Commercial Improvement	69
------------------------------	----

FOREIGN TRADE

Continued Development of Shenzhen Special Economic Zone Reported

(NANFANG RIBAO, 8 Aug 83).....	70
--------------------------------	----

Expansion of Zhuhai Special Economic Zone Approved

(Tao Guangyuan; NANFANG RIBAO, 27 Jul 83).....	72
--	----

Utilization of Foreign Funds Reported

(NANFANG RIBAO, 31 Jul 83).....	74
---------------------------------	----

Briefs

Hangzhou Tourism	76
------------------	----

GENERAL

New Development in Guangdong Rural Enterprises Reported

(Huang Rong, Qin Guangdou; NANFANG RIBAO, 16 Aug 83).....	77
---	----

Application of Input-Output Method Advocated

(Ge Wei; GUANGMING RIBAO, 8 Aug 83).....	79
--	----

Uphold, Improve System of Command-Style Planning

(Gui Shiyong; JINGJI RIBAO, 23 Jul 83).....	81
---	----

TAIWAN

Hong Kong Bank To Open Branch in Taipei (CHINA POST, 21 Oct 83).....	85
---	----

HONG KONG MEDIA ON CHINA

Current State of Development in China's Nuclear Industry (Editorial; WEN WEI PO, 15 Aug 83).....	86
Bank of China Reluctant To Lend HK Dollars (Elizabeth Cheng; HONG KONG STANDARD, 20 Oct 83).....	88

NATIONAL POLICY AND ISSUES

RENMIN RIBAO ON BUILDING SOCIALIST BUYERS MARKET

HK051010 Beijing RENMIN RIBAO in Chinese 23 Sep 83 p 5

["Excerpts" of article by Liu Guoguang [0491 0948 0342], originally carried in "CAIMAO JINGJI" No. 9, 1983: "A Second Discourse on the Buyers Market--A Strategic Problem in the Overall Balance of the National Economy"]

[Text] In 1980, I wrote an article concerning regulation by plan mechanism and regulation by market mechanism ("A Brief Discourse on Several Questions Concerning Regulation by Plan Mechanism and Regulation by Market Mechanism," "JINGJI YANJIU" No. 10, 1980). In the article, I proposed that we should establish a socialist, restricted buyers market. Subsequently, some comrades did not agree with this proposition. I would like to air my views again on how to look at the question of the "buyers market."

How the Question Was Brought Forward

The "buyers market" was neither transplanted nor "shipped" from a Western country. It emerged, strictly speaking, from the realities of our life, and is a problem confronting us in our economic readjustment and economic reform. Economic readjustment is readjustment of the disproportionate national economy, which includes readjustment of the imbalance of proportion between agriculture, light industry, and heavy industry, and between accumulation and consumption. But what is the root cause of the disproportion? The root cause lies in the fact that production is carried out for the sake of production and without considering the interests of consumers. In the past, this manifested itself in various aspects: The people's income increased very slowly, and sometimes it was even reduced; supply was falling short of demand day by day, rationed commodities were increasing, and more and more people had to queue up when buying daily necessities; commodities had been lacking variety for decades; and service quality was very bad. All this aggravated the unhealthy tendency of entering by the back door. These were the problems we often saw in our economic life several years ago. Therefore, the discussion on the purpose of production was carried out, and some comrades brought forward the question of the "consumers rights" in some newspapers. Consumers had no right in the market and had to follow the will of the producers and suppliers, who dominated production and supply. The proposition concerning the "buyers market" is the continuation of the discussion on the purpose of production and the discussion on consumers rights.

How can we change our market into a market which can really serve consumers and about which consumers can have their say? The final purpose of readjusting the disproportion between accumulation and consumption, between circulation and production, and between agriculture, light industry, and heavy industry is to serve consumers. This is where the idea concerning the buyers market has stemmed from.

We must reform the erroneous practice of excessive concentration and of excessively using administrative methods to manage the economy. In carrying out economic system reform, we must exercise certain decentralization under the prerequisite of maintaining the necessary centralization; we must use more economic methods under the prerequisite of maintaining the necessary administrative methods; and we must bring into play the supplementary role of regulation by market mechanism under the prerequisite of upholding the planned economy. In economic management, we must strive to combine centralization with decentralization, economic methods with administrative methods, and plans with market, and to utilize more fully the role of regulation by market mechanism and the role of economic levers. Here, a flexible market which can maintain a balance between supply and demand is needed. If commodities are always in short supply, there is nothing we can do but to adopt more compulsory methods of control and to adopt more centralized, administrative methods. Therefore, viewed from the angle of reform, a flexible market is needed. We must have a certain reserve of commodities to be regulated according to the market situation. This is what we call the "restricted buyers market with supply a little higher than direct demand."

The word "buyers" in the "buyers market" refers not only to buyers as individual consumers, but also to buyers as "consumers who carry out production." Buyers who carry out production are also producers. In the market, they are both sellers of products and buyers of raw materials. In the buyers market, not only individual consumers but also producers have the right to choose. That producers should have a choice of raw materials is an important principle for exercising enterprises' decisionmaking rights. Whether producers can have a choice of raw materials is closely related to whether the market has abundant commodities. If commodities are in short supply, they will have no choice but to use whatever is available (or they will have nothing to use at all), and little can be said of their decisionmaking rights.

The Concepts

The concepts of the "buyers market" and the "sellers market" were originally used by Western economists. Later they were also used by some Eastern countries. The concepts belong to the commodity economy and are not capitalist economist concepts. As long as there is commodity economy, there are the relationships between the supply and demand of commodities. The buyers market can emerge in a certain situation (when supply exceeds demand) in the relationships between supply and demand, and the sellers market in another situation (when supply falls short of demand). In places where there is commodity production and commodity exchanges, the above two phenomena will exist.

But people still have the impression that only the capitalist society has a buyers market, because on the one hand, capitalism expands production in blind pursuit of profits, and on the other hand, the laboring people are exploited. As a result, purchasing power lags behind, and supply exceeds demand. In contrast to this, that supply falls short of demand should be a characteristic of the socialist economy, and that the increase in the purchasing power is faster than that in production shows the superiority of the socialist system. When comparing the Soviet Union's economic system with the capitalist economic system, Stalin said: "Here in the Soviet Union, the increase in the masses' consumption (purchasing power) always exceeds that in production, and this increase brings forward the development of production. In contrast, there in capitalist countries, the increase in the masses' consumption (purchasing power) has always been unable to catch up with that in production and always lags behind production. As a result, production is often beset with crises." ("Collected Works of Stalin," Vol 12, p 282) This seems to be an infallible law of the past political economics. Supply falling short of demand seems to be a problem which the socialist economy cannot solve. Many Western economists use this as a handle to attack the socialist system, asserting categorically that we will never be able to solve the problem of supply falling short of demand. But I think the problem can be solved under the socialist planned economy. The plans for the socialist economy include both the plans for production and supply and the plans for the purchasing power and demand. The state can control these two aspects to such an extent that an overall balance can be maintained. The state can maintain a balance between supply and demand. It can also maintain an imbalance between supply and demand according to the needs of the strategic development of the economy. It can create a situation of supply exceeding demand or of demand exceeding supply. The socialist planned economy can take the initiative in maintaining such a balance, while the capitalist private ownership system is unable to do so.

The "buyers market" needed by the socialist economy must be able to meet the following requirements: A slight excess of supply over demand and a slight excess of commodity production over direct demand. To what extent must supply and commodity production exceed demand? First, they must exceed the necessary contingency reserve and the necessary reserve for preventing any disproportion. The contingency referred to here includes natural accidents and technical accidents in production. Second, they must exceed the working reserve for regularly making up deficiency from surplus, which includes the working reserve in production and circulation links. Third, they must exceed the redundancy of products which can create the necessary competition between sellers. Competition between sellers is an important factor forming the buyers market. Through competition, low-quality, high-priced, and obsolete products will be eliminated. In the constant development of production, there are always bad, expensive, and old-fashioned products, which will be eliminated or downgraded through market sieving. These are redundant products. Being unable to improve production methods, some producers have no alternative but to suffer losses in the course of competition. The slight excess of supply over demand in the buyers market under the socialist economic system is "restricted" within the above scope, so as not to cause

overproduction, as the capitalist system does. Suppliers and consumers, buyers and sellers, be they collective or state representatives, or individual laborers, are controlled by state plans (direct or indirect plans). Even their activities in the free market are controlled within the overall balance of the national economy by means of economic levers. Of course, in practice, being unable to control them well is another problem. It is due to our errors in work. But theoretically, we can control them, because both buyers and sellers are responsible for maintaining socialist production relationships and are controlled by state direct or indirect plans within the network of the overall balance of the national economy. Since one side can have only a slight, limited excess over the other, it is possible for state plans to control the excess. Besides, this limit can first be controlled in a macroeconomic manner.

The following point must be made clear: A slight excess of production and supply over direct demand is in itself an important factor forming the relationships in the overall balance. The overall balance of our national economy should consist of a factor which can enable us to have a slight excess of production and supply over direct demand. This is very important, because some comrades always set the buyers' market against the proportional development of the overall balance. This is not an antagonistic relationship. The buyers' market should be considered as a factor in the overall balance. When drawing up a plan for the overall balance, we must leave enough margin so that we can have the initiative in carrying out the plan and in steadily developing the economy. Here I would like to relate the above analysis to what Marx said with regard to the necessity for "producing a surplus" in the socialist economy. Marx pointed out: "Such surplus is not an evil in itself, but an advantage; however it is an evil under capitalist production." ("Collected Works of Marx and Engels," Vol 24, p 526) Therefore, when we began to use the concept of the "buyers market," we prescribed a limit to the concept: It is different in nature from that in capitalist countries, and its significance is not the same either. Such being the case, why can we not use the concept to analyze our economic life so that we can realize the aims of our economic policies?

Initially, I regarded the "buyers market" as a macroeconomic concept. In other words, in the whole sphere of the national economy, there must be a buyers market in the relationships between total demand and total supply. The prerequisite is that the total social purchasing power formed through accumulation and consumption is suited to usable national income. The scale of the former must not exceed that of the latter. Under the prerequisite of macroeconomic balance, whether certain commodities and places can have a buyers market is a subordinate but important question. Under the overall balance of the economy, it is comparatively easy to solve the problem of market equilibrium of specific commodities. Whether we carry out regulation by plan mechanism or regulation by market mechanism with regard to specific commodity market, we cannot expect to have absolute unanimity between commodity structure and demand structure, as some specific commodities have a large variety and some other specific commodities have a small variety. So commodity structure and demand structure are under constant readjustment.

Some comrades have put forward the concept of the "structural buyers market." I maintain that the "structural buyers market" can emerge only when there is general market flexibility; without general market flexibility, the structural buyers' market is unlikely to emerge. If the general economic situation is bad, people will be in the mental state of rushing to the market to purchase; they will buy whatever is supplied in the market, including those things which are not needed; and they will queue up as soon as other people do so, without considering what is being sold in front. Such being the case, there can be no structural buyers market. There can be a structural buyer market, but the prerequisite is that there must be general economic flexibility. However, the disequilibrium between supply and demand will exist forever and will be under constant readjustment. Our aim is to realize the coordination between the total volume of supply and the total volume of demand, and between their structures.

Does the Socialist Economy Require a Buyers Market?

After making a clear distinction between the above questions, not only can we use the concept of the buyers market, but we must also build the buyers market. Here I would not analyze in detail the advantages and significance of building the buyers market, as I have dealt with them at great length before. But I would like to stress the following points:

1. The Rights of Consumers

If commodities and materials are in short supply, consumers will have no right to speak, and it will be very difficult to realize the aim of socialist production. Only when the socialist buyers market is realized, can consumers have the right to speak, will they be respected and served well, and will they no longer be cold-shouldered and dressed down. In order to put an end to such a phenomenon, which does not tally with socialist commerce, we must build the socialist buyers market.

2. Bringing About Competition Between Sellers and Exerting Pressure on Producers

Only when the buyers' market is realized, can we exert pressure on producers and bring about a competition between sellers. The apparently prosperous situation in the sellers market will cover up operational weak points, technological inferiority, and management shortcomings. Only when the buyers market is realized, can we expose the above contradictions and improve production technology, operation and management, and service quality. Without such improvement, sellers will be eliminated in the course of competition.

3. Creating Favorable Conditions for Reform

If we carry out reform when commodities are in short supply, many problems will emerge. For example, in the first half of this year, some shops carried out the contract system when supply still fell short of demand.

As a result, problems such as giving short measure, raising prices, and reselling commodities at a profit emerged. In this way, reform will acquire an unsavory reputation. Therefore, we must have market flexibility so that we can provide favorable conditions for reform.

4. Promoting Spiritual Civilization

The realization of the buyers market is beneficial to spiritual civilization and to changing social habits for the better. Only when the market is abundant in commodities, can we check the unhealthy tendency of entering by the back door and of exacting charges at will, and service quality can be improved only when there is competition. This theory is self-evident.

Those who fail to differentiate between the socialist buyers market and the capitalist buyers market, and between the socialist buyers market and capitalist overproduction will think that building the buyers market will cause the stockpiling and waste of commodities. In fact, more serious stockpiling of commodities exists in the sellers market. Because supply falls short of demand, rush purchases can often be seen in the market. Commodities which are not needed are bought for the purpose of reserving them as counters to be exchanged for other kinds of commodities which are needed. This kind of waste is astonishing. The stockpiling of more and more commodities is not caused by the buyers market. Some comrades maintain that the buyers market will cause the stockpiling and waste of commodities. This is a one-sided viewpoint.

Some comrades say that the question concerning the buyers market is not a question of supply exceeding demand, but a question of competition and monopoly. What they say is reasonable. If operation and management are exclusively run without competition when commodities are in abundance, the sellers market still cannot be changed into the buyers market. On the other hand, without an abundant supply of commodities, there will be no competition. Therefore, the above two aspects must not be overlooked, and supply flexibility is of first importance. If commodities are still in short supply, having more channels, traders, and peddlers will create confusion and not a buyers market. In creating a buyers market, there must be two conditions: First, we must have a comparatively good supply of commodities, which is slightly over direct demand; and second, we must increase the number of circulation channels, strengthen circulation network, and realize the necessary competition between sellers. Neither of the above two conditions is dispensable in forming a healthy buyers market.

Appraisal Concerning the Present Market Situation

With regard to the present market situation, there are three kinds of viewpoints: The first kind says that the buyers market is taking shape; the second kind says that the sellers market is changing into the buyers market and that the change has not been stabilized; and the third kind says that the buyers market has not taken shape. I think the second viewpoint is close to actual conditions. On the whole, the change from the sellers market into the

buyers market has not been stabilized, and we cannot say that the buyers market has taken shape. We can only say that when there is economic flexibility, some commodities can have a buyers market. Viewed from the overall situation, the buyers market is merely taking shape. It is not stable and will possibly change back into the sellers market at any moment.

Why do we say that the sellers market is gradually changing into the buyers market and that a stabilized buyers market has not taken shape? First, since the early half of last year, the buyers market of production materials has shrunk, and price rises have emerged. Second, a lot has still to be done to raise the production of some important consumer products such as grain, and housing materials needed by the rural areas are in short supply. The stockpiling of some products has been due to a lack of variety, to poor quality, and irrational prices. In addition, the latent purchasing power in the rural areas has not been fully tapped. Here lie a series of problems such as smoothing out circulating channels. Third, the excessive expansion of last year's investment in fixed assets has caused a drastic rise in heavy industrial production. When energy and materials were in short supply and work in communications and transportation was becoming heavier, there were signs of heavy industry squeezing out light industry. Up to the first half of this year, this trend still continued. Particular attention must be paid to this aspect. Moreover, due to the disproportionate increase in consumption funds, in the first half of this year, the increase in the purchasing power for social commodities exceeded that in retail commodities. Therefore, we must not be unrealistically optimistic about the situation. Now, the buyers market of production materials is becoming smaller and smaller, and the buyers market of consumption materials is not stable. If the scale of investment in fixed assets continues to be excessively expanded, if the sharp rise in heavy industrial production continues to be out of control, and if the disproportionate increases in salary, bonuses, and welfare are not changed, the buyers market will change back into a sellers market. We must pay serious attention to this.

In short, over the past few years, we have ushered in a good situation in changing the sellers market into the buyers market. This is the result of our implementation of principles concerning readjustment and reform. This situation is not stable because readjustment work has not been carried out thoroughly. Not everyone can see clearly or make up his mind to take the new road which has just been opened through readjustment work. This is the problem which needs an urgent settlement.

Prospects and Efforts To Be Made

According to the analysis of the above market situation, there may be two prospects: 1) The present unstable buyers market will have further consolidation and development, and will gradually become overall and stable. 2) The buyers market, which is just beginning to appear, will change into the sellers market, in which commodities are in short supply.

Of course, we must strive to avoid the second prospect and achieve the first one. But if things are not handled well, it is quite possible that the second prospect will emerge. As I have mentioned above, the socialist economic system, and its planned economic system in particular, can change the sellers market, which suffers from a shortage of popular commodities, into the buyers market, which is abundant in commodities. Therefore, it is quite possible to realize the first prospect. The main thing here is to cure the "hunger disease of investment" and to systematically and thoroughly reform the economic system of everybody eating from the same big pot. I would not specifically deal with this problem here. Another important problem is that we must formulate a correct strategy for economic development and do a good job in realizing an overall balance of economic plans. At present, we must handle well the relationship between readjustment and development. During the Sixth 5-Year Plan period, we must continue to focus our work on economic readjustment and carry out development in the course of readjustment. We must not one-sidedly carry out development for the purpose of quadrupling production in total disregard of readjustment. In the overall balance of economic plans, we must pay attention to the following points:

First, when drawing up a plan, we must leave some margin with regard to the speed in development; we must have a reserve with regard to the overall balance of the plan; and in arranging accumulation and consumption, we must strictly control the scale of investment and the increase in consumption funds so that the total social needs formed through accumulation and consumption can be kept within the range which is slightly lower than usable national income. The development of the necessary key construction projects must be carried out under the prerequisite of strictly controlling the scale of investment. We must conscientiously implement the decision made by a central work conference held recently on controlling the scale of investment in fixed assets and concentrating funds on the construction of key projects.

Second, we must continue to readjust enterprises' structure and product structure. Under the condition of maintaining a good situation in agricultural development, the development of heavy industry should not affect the six priorities given to light industry. The product structure, technological structure, and enterprises' structure in agriculture, light industry, and heavy industry should be further readjusted so as to meet the needs of market structural changes.

Third, in planning our work, we must combine the guidance for plans with the supplementary role of regulation by market mechanism so that the arrangement of production can meet the needs of the market. We must fully utilize the role of economic levers, which include price levers, taxation levers, and credit levers, to give guidance to production. Providing economic information is also an important kind of guidance. In guiding production and consumption, we must use economic levers and provide various kinds of information.

Furthermore, viewed from the angle of commercial work, to accelerate the reform of the circulation system and management methods, we must change the

monopoly of "government-run commerce" into a competition between various circulation channels, various operational forms, and various kinds of commercial network so that we can establish the socialist commercial style which can serve consumers. Competition has not really taken shape. Shops still carry out the principle of everybody eating from the same big pot. If this situation is not changed, it is difficult to develop and stabilize the buyers market.

In conclusion, I would like to say that the question of the buyers' market I put forward in the past is not merely a question dealing with commerce. I would like to stress that it is a question concerning the overall balance of the national economy, a question concerning macroeconomic policymaking, and a question concerning opening a new road in economic development. By taking this new road, the people can raise economic results and obtain material benefits in a comparatively steady manner. As long as we leave some margin with regard to the speed in development, have a reserve with regard to the balance of our plans, and control the scale of investment and the increase in the people's income within a range not exceeding the national strength, we can have economic flexibility and a steady economic growth. Therefore, this is not merely a question concerning commerce. Of course, commerce has direct effects on the market. Commerce has heavy tasks such as finding the sources of goods and serving consumers. It is impossible to build and run the buyers market without the efforts of commercial departments. However, the question of the buyers market still has to be viewed from the strategic height of the overall balance of the national economy.

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NATIONAL POLICY AND ISSUES

HANDLING RATIOS, SPEED IN ECONOMIC DEVELOPMENT

HK051009 Beijing RENMIN RIBAO in Chinese 28 Sep 83 p 5

[Article by Liao Jili [1394 1323 4539]: "Arranging Ratios and Speed With Central Emphasis on Maximizing Economic Results"--passages within slantlines published in boldface]

[Text] Editor's note: The organization of speed and ratios with central emphasis on maximizing economic results is an extremely important question in our present national economy. This article integrates China's present situation and provides a comprehensive and concrete discussion of this question. Although the article is quite long, it is fairly easily to follow and well worth reading. [end editor's note]

Many articles have already been published in the press dealing with the correct way of handling the relations between results, ratios, and speed in economic development. These articles have provided many good explanations and some have provided some quantitative limits, all of which are very valuable and useful. However, history and present facts constantly prove that it is by no means an easy matter transforming this knowledge into an accurate and realistic solution to the problem. Since the announcement at the 12th party congress that "all economic work must be steered toward the central theme of improving economic results," it has been especially important that we research and discuss this problem in even greater depth.

Improving Economic Results Represents a Tactically Significant Change

Placing economic results at the very center of all economic work, and thus working toward results rather than speed, represents a tactically significant change in policy. This new policy was primarily decided by the fundamental aims of socialist production. In the final analysis production and construction are carried out to satisfy the material and cultural needs of the people. This includes two kinds of needs. The first is that products which are produced must be as effective as possible and they must all be marketable. Secondly, the costs involved in producing these products must be as low as possible, thus saving the maximum amount of manpower, finances, and material resources. This then is the major part of economic results. Only in this way can we guarantee that labor in work units at grass roots level is effective and only in this way can be sure that a proportion of the financial

wealth created by the workers can be used throughout society after this wealth has initially compensated for the consumption costs of simple reproduction so that China will gradually become prosperous and flourishing while the people grow happy and rich.

For many years the influence of "leftist" ideologies and a lack of understanding of the laws of economics always meant that we were too hurried in our economic construction work, making speed the most important thing. At the same time we insisted that ratios be subordinate to speed and serve speed and thus economic results were ignored to a severe extent. The results was that while the figures always suggested speed development, the price of such speed was very high and thus increases in the national revenue and in the total number of end-products for direct consumption were all very small and thus the people gained little material benefit. Today we are coming to understand the situation with increasing clarity. Results are the only realistic and decisive thing. If speed is divorced from results then not only does it become unrealistic, it can sometimes cause damage.

It is important to stress the extreme importance of economic results since they also represent the key to achieving the strategic target of quadrupling industrial and agricultural production output by the end of this century. At present we are faced with one outstanding contradiction--namely, on the one hand there are serious shortages of energy and raw materials as well as construction funds while, on the other hand, it is very difficult to change the fact that at the same time the various consumption indexes are all very high and the fund utilization ratio is very low. On the basis of these kinds of economic results, quadrupling will be very difficult. The only hope is to bring down all consumption indexes and to put up all the various utilization ratios, thereby ensuring that each work unit's investments will give them the maximum amount of products possible. In this respect we have enormous potential, for example, in recent years every 100 yuan of accumulation has resulted in an increase in the national revenue equal to a little more than half of that during the First 5-Year Plan period. If we could restore the economic results of accumulation to the level during the First 5-Year Plan, then, with the same amount of accumulation funds, the nation revenue could increase by nearly half. In another example, China's energy utilization ratio dropped by 55 percent between the First 5-Year Plan period and the Fifth 5-Year Plan period. If we could restore it to the level of the First 5-Year Plan period then, relying only on present energy production figures, we could achieve a 50 percent or more increase in agricultural and industrial production. In his analysis of capitalist production Marx wrote, "Capital tends toward thrift and this tendency teaches humans to spend their own strength economically, making use of the least amount of money to achieve production aims." ("Collection Works of Marx and Engels," Vol 26, II, p 625) In the socialist planned economy we should of course make even greater efforts to work toward this end and herein lies the potential key to achieving our strategic targets by the end of the century.

So how can we effectively improve economic results? Raising economic results represents the synthesis of scientific macroeconomic management and highly effective microeconomic activities and thus it involves almost every area of economic work. Here we can only discuss the most important of these points.

1. /Rational implementation of distribution of the national revenue and guarantees for the smooth organization of social reproduction are the indispensable premises for improving economic results./

It is only possible to improve economic results within the normal cycle of social reproduction. This normal cycle primarily depends on the rational distribution of the national revenue. If the national revenue is not distributed appropriately then all economic life will be thrown into disorder, producing shortages, splits, lack of control, and so on and thus inevitable social economic results will fall. On the basis of many years' experience and lessons, it has been noted that there are two problems which are most likely to crop up in the distribution of the national revenue. One is excessive distribution and the other is "bullish" repetitive distribution. Excessive distribution means that the total sum of accumulation funds and consumption funds added together exceeds the total figures for the national revenue. The direct effect of this is that social demand is greater than supply and in actual fact what happens is that a portion of the national revenue that has been distributed becomes a "dud check" which cannot be materially honored. Financial deficits, credit deficits, price fluctuations, market instability, and various other negative results may follow, thus creating overall dislocations and disorder. "Bullish" repetitive distribution means that after the central authorities have "sliced up" the funds (mainly capital construction investments) and handed them out to the various regions and departments, the latter redistribute through the various administrative levels. Under the present system of separated and split departments and regions this kind of distribution is often based on regional interests or personal interests and is divorced from the guidance of unified state planning, so that the largest proportion of the funds is invested in areas beneficial to one party but not beneficial to the overall setup, indeed in some cases it can even be damaging. An important reason for this is the difficulty involved in controlling the scale and direction of investments as well as blind production and repetitive production. Furthermore, during the process of this kind of distribution, funds which had been planned would be used for simple reproduction are actually taken and used for expanded reproduction, while funds which it had been planned would be used for accumulation are taken and used for consumption, or, the other way round, consumption funds are used for accumulation. In this way the proportional relations in state planning organization can be thrown into chaos, causing them to become distorted and thus intensifying the dislocations.

It is clear to see that if we want to strive for improving economic results we must steadfastly change these methods of excessive distribution of the national revenue and "bullish" repetitive distribution. In the short-term it will be difficult to solve China's present problem of being unable to

satisfy the demand for the means of production and the means of subsistence and it is absolutely impossible to rely on deficits as a financial incentive to the economy, for not only should the total sum of accumulation and consumption not exceed the total for the national revenue, there should in fact be sufficient left over for contingencies. Once this situation has been come to terms with it is quite straightforward to achieve a balance between total social supply and total demand, thus laying the foundation for a healthy cycle for the national economy. We must strengthen the central authorities' centralized and unified guidance in the distribution of the national economy and suitably increase the proportion of the national revenue that financial revenue represents and also suitably increase the proportion of the financial revenue that central authorities' revenue represents. In addition we should clearly define and fully get to grips with the extent and limitations of regional and departmental investments, increasing central control over total investment figures and the direction of investment. In this way we may create a stable and coordinated economic cycle for the accurate and orderly implementation of social reproduction and thus, too, there will be suitable conditions and the necessary premises for increasing economic results.

2. /An effective way of improving economic results is to redirect the focus from extensional economic development to intensional economic development./

Extensional development means economic development achieved mainly by relying on adding to investments in labor and energy resources. This kind of development is without doubt still necessary in China during the process of modernized construction. However it does involve high consumption and low results and is extremely limited by the conditions of natural resources. If we want to speed up the process of modernization then we must demand more and more use of intensional developmental means, which means mainly relying on technological advances and scientific management to improve efficiency--the key element in production--in order to achieve economic development. In comparison, intensional development involves the consumption of much fewer natural resources while results are much higher. In general, in terms of increasing production capacity by an equal amount, the investments, materials, and work time required to refurbish an old factory are one-third or sometimes even two-thirds of those needed to build a new factory. At present the effective utilization ratio of energy in China is between 28 and 30 percent, while in Japan it is as high as 50 percent or more. If, through technological transformations and improved management, we could raise the energy utilization ratio to the level at which it stands in Japan, then in 1 year we could save 200 million tons of standard coal. Even bringing the ratio up to 40 percent would mean savings of more than 100 million tons of standard coal and this is a very objective figure! After 30 years or more of construction we now have an industrial basis of a fairly good size and now it is vital, and we have the capacity, to effect a change toward intensionally based economic development. In view of the present shortages of energy, raw materials, and transportation power, this change is all the more urgent. We must strategically and positively draw up plans, policies, and measures and consciously mobilize for this change. We must develop large-scale technological transformations on a planned basis and we must selectively import advanced foreign

technology, improving links between scientific research and production so that scientific results which have already provided economic results may be applied as quickly as possible in production. At the same time we should also reform the original, backward system of economic management and the various management methods, implementing in their stead scientific and modernized management. In this way great improvements in economic results and the "launching" of the entire national economy well equipped with a strong pair of "wings." Furthermore, it is pointless to do any of this without close integration with a large batch of modernized, technological talent and management and administration experts. Thus we must make all efforts to get to grips with training experts and teaching people in various relevant fields, and in this particular case it is well worth spending a little extra money and looking a little further into the future.

3. /An important guarantee for improving economic results is the establishment of an advanced and rational industrial structure and enterprise organizational structure./

Because of differences in technological equipment, technological procedures, and the nature of the products involved, different industries illustrate vast differences in consumption and output. For example, there is at present research going on abroad aimed at using optical fibres instead of copper and aluminum wires for the relaying of information. According to statistics, the energy required to produce this kind of fibre is only one-thousandth of the energy required to mine, smelt, and process the same length of copper wire. After the Second World War and especially since the energy crisis of the 1970's, motivated by their desire for profits and under pressure to preserve the environment, advanced capitalist countries have begun to focus on developing new industries dealing with electronics, space navigation, new materials, biological engineering, marine engineering, and so on, while some traditional areas such as textiles, iron and steel, and railways have fallen behind or have been transferred to develop or backward countries. On the basis of the actual situation in China a certain amount of development is still vital for the country's traditional industries but we should at the same time pay attention to developing these other new industries which involve advanced technology, low consumption, and high results so that we may gradually expand the position they occupy in the entire industrial structure.

Similarly, it is vital to readjust the organizational structure of existing enterprises in order to improve economic results. In China there are countless tens of thousands of small, backward enterprises and in many of them consumption of energy and raw materials is very high while labor productivity is low, the quality of the products poor, profits minimal, and sometimes there are even losses. Thus these enterprises are a burden for our aim of increasing economic results. These enterprises can only develop with the help of special government policies. To achieve modernization we must get rid of backwardness and thus we must firmly adopt various administrative and economic measures to force backward enterprises to stop production or redirect their production or to encourage them to join economically integrated

bodies centered around advanced large-scale enterprises, so that these enterprises develop from being small and being specialized or precision enterprises. When this burden has been cast off social economic results will vastly improve, regardless of how much investments are increased.

4. /A reliable basis for improving economic results is to improve and perfect the quality of enterprises./

The quality of enterprises is a composite reflection of the state of their technology, their management and administration, and the standard and suitability of their workers, including the leading cadre groups, and their creative capacities. For many years complex political, economic, and social factors have meant that with the exception of a small number of high quality enterprises, the very large majority of China's 400,000 industrial and commercial enterprises have been lacking in quality to varying extents. This has meant that they have had high consumption, low product variety, low product quality, slow renewal, and lack of competitiveness. While some enterprises have made profits, these profits have to a very great extent depended on cheap energy and raw materials and low wage expenditures and thus are rather misleading. It is impossible greatly to increase economic results on the basis of these weak and fragile foundations.

Improving the quality of enterprises is very far-reaching and requires a great deal of work. The two most important things to be done are: 1) to give the enterprises the right, the duty, and the interest to improve management and administration and to concern themselves with technological advances and improving the standard of their workers. By making it clear to the enterprises that they have this responsibility and by giving them the necessary powers to do so, these enterprises will work hard and in the end they will be able to achieve what will be in their own interest. 2) We must create trends forcing enterprises actively to improve quality without fail, it being hard otherwise for them to continue to exist, for they would be lost in the vigor of competition. Of course the state must use policies, systems, and setups to create the external conditions required for the enterprises to improve quality but we cannot do what was done in the past, looking after the enterprises "in every detail" and allowing the enterprises to sit on the state's back, "eating from the same big pot" with calm and justification. Only by making them take positive steps themselves will China's enterprises develop into economic bodies with unified interests, responsibilities, and right, vibrating with motivation and activity. And only in this way will a set of capable and efficient enterprises emerge producing high quality products and boasting high labor productivity, new technology, and new kinds of products. If these hundreds of thousands of enterprises can improve their quality then there will be a reliable basis on which economic results may improve and at the same time the state will have an abundant source of revenue.

Correctly Organize the Major, Overall Proportional Relations

Making improvements to economic results the central work in economics will of necessity bring about the rationalization of proportional relations in the national economy. This rationalization of proportional relations will in turn further promote increases in economic results. So how should we organize some of the major, overall proportional relations within the national economy to ensure that they will help improve economic results?

First, /proportional relations between light industry and agriculture./

In the 26 years from 1953 to 1978 the proportion that agricultural production value represented in total industrial and agricultural production value dropped by 29.1 percent, an average drop of 1.12 percent per year. The proportion that light industry represented in total industrial and agricultural production value only increased by 3.3 percent, an average of only 0.13 percent a year. Heavy industry, however, increased the proportion that it occupied by 25.8 percent, an average annual increase of about 1 percent. It is correct and necessary for the heavy industrial proportion to increase and the light industrial and agricultural proportions to decrease during the process of national industrialization, but, on the basis of the actual situation in China, the speed and extent of this rise and fall in ratios has been too extreme and has thus created an overemphasis on heavy industry and an underemphasis on light industry and agriculture and this has thus been one of the main reasons for economic dislocations. Because of readjustments carried out on the ratio between light and heavy industry, at the beginning of 1979 there were the first signs of prosperity in economic life. In recent years, in order to ensure coordinated development between heavy and light industry and agriculture, attempts to cut the drop in the agricultural proportion, suitably to increase the light industrial proportion, and to control the increases in the heavy industrial proportion have meant that within industrial and agricultural production value, heavy industry represents around 40 percent and light industry and agriculture represent around 60 percent. This ratio is probably very sensible. The reason for the suitability of this ratio is that in order to maintain the present standard of living and indeed gradually to improve it for the 1 billion people living in China, the production of the means of subsistence must develop at a certain speed and on a certain scale and thus we must maintain the fairly high proportions of agriculture and light industry. Development of heavy industry requires enormous amounts of accumulation and today in China a very large portion of our accumulation comes from agriculture and light industry, thus only by developing light industry and agriculture can we truly develop heavy industry. Hence, as far as heavy industry itself is concerned, it must continue to be subject to internal structural limitations and, since in recent years it has been impossible to develop energy in China on a large scale, speedy development of heavy industry in China has not come about either.

Second, /proportional relations between accumulation and consumption./

Accumulation is the source of expanded reproduction. This is only true when there is a suitable amount of accumulation. Looking back over the last 30 years of practical experience in China, when the accumulation rate exceeds 30 percent, what often happens is not massive development in production, but rather a drop in production, and thus the people's standard of living is not improved, it is impaired. The reason for this is that accumulation fund results are not good while the capital, goods, and materials invested are enormous, and thus the fixed assets and production capacity created are both rather small and as a result there is an imbalance between investments and their results. It can be seen that in view of the low level of labor productivity and economic management in China, as well as limited increases in the national economy in the short-term future, it is not good to overdo accumulation and instead we should concentrate on improving accumulation results. On the basis of historical experience, the most suitable balance is when the financial revenue represents between 28 and 30 percent of the national revenue and when the accumulation rate in the national revenue is maintained at between 25 and 30 percent.

Third, /proportional relations between productive fixed asset investments used for technological transformations and new construction and expansion./

For a long time, pressure to strive for speed meant that there was a tendency to emphasize production and belittle technology and also to emphasize new construction and belittle improvements or adaptations. This meant that far too many funds were being invested in capital construction and in some cases even compensation funds supposedly meant for renovation and improvements, which originated from simple reproduction, were actually taken and used for the construction of new places. In the short-term this expanded the scale of production but in actual fact it caused serious losses. In view of the desperate need for renovation and renewal amongst existing enterprises, the proportion of funds for renovation and renewal in recent years has been more than 50 percent of fixed asset investments and thus, by spending little money, quick results can be seen. The remainder of the investment is mainly used by the state and invested in key construction areas such as energy and communications. Key construction items cannot be increased in the short-term either and on average the total amount of fixed assets created should amount to more than 85 percent of investments for that year, while construction time should on average not exceed 5 years. In this way we can avoid drawing out a long battlefront and waging a war of consumption and thus investment results will increase greatly.

Finally, /we must still accurately handle the relations between developing the production of the means of subsistence and improving the people's living standards./

Improvements in the people's living standards must be based on production development and increases in labor productivity and it is especially important that consideration be given to integration with the development of light industry and agriculture which provide the large majority of the means of subsistence. According to historical experiences, if there is a 6-7 percent

increase in production in agriculture and light industry every year then it is possible to allow an increase of between 4 and 5 percent in social purchasing power every year. If this ratio is exceeded then market shortages occur and shops are unable to satisfy demand. If this increasing ratio is maintained then in 10 years there will be development and improvement in the people's living standards while within 20 years there will be enormous improvements. Of course, in comparison with developed countries this is still quite low and is only what is referred to as "comparatively well-off."

On No Account May We Put Biased Emphasis on Striving for Speed

It goes without question that fairly high-speed economic increases are both important and necessary in order to achieve "quadrupling" by the end of the century, but we should take note that the speed of economic increase is determined by specific social, economic, and technological factors in any one period of time. Thus speed is a composite reflection of specific ratios and specific economic results. If one departs from these ratios and results and considers speed totally independently, striving for it at all costs, then one is contravening the objective laws of economics and the results will be wastage. If economic results and proportional relations are ignored and if products are not produced to meet society's demands, then what we have is invalid labor. This kind of production totally wastes valuable energy, raw materials, and labor. Throughout history we have suffered a great deal in this respect and the price we have paid has been too high!

How should the developmental speed of the national economy be organized in the short term? Here once again we should begin by analyzing the restrictions of light industry and agriculture on the development of heavy industry. On the basis of the last 30 years of experience, for every 1 percent increase in agriculture, light industry can increase around 2 percent. If, in the short term, agriculture increases on average by more than 4 percent then light industry can increase at a speed of between 6 and 8 percent or more. Once agriculture and light industry have developed the means of subsistence are available, and once accumulation funds are available once again, then heavy industry may develop quickly. In this way heavy industry may maintain a speed of development a little higher than that of light industry, for example around 8 percent on average or a little more. On the basis of the above considerations, as long as there are no enormous natural disasters or other unforeseen occurrences, then the average annual speed of increase of industry and agriculture in the short term can reach between 6 and 7 percent.

Should we organize development speed on the basis of production capacity of goods in ample supply or on the basis of production capacity of goods in short supply? This has been a subject of controversy for many years now. While it is true that speed will be increased if it is based on goods in ample supply, it may create even greater shortages of goods already in short supply, thereby exacerbating the imbalance. While it may be safe to arrange it on the basis of goods in short supply this could also create overstocking of some products and idleness in production in some areas, and thus bring down economic results. Thus, the best and safest option is fix the speed

of development on the basis of those products which have a determining influence on the entire situation. Of course one of these is grain and cereals, or food in general, and another is energy, while in addition there is also communications and transportation. We must scientifically estimate how much grain can be supplied, how much extra energy can be produced and what responsibility rests on transportation and communication within each period of planning, while also taking into consideration economy substitution, exploitation, imports, and various other factors, making all of these the basis for organizing the speed of development.

Should there be any allowance for unforeseen circumstances when arranging speed? There is not much disagreement about the theoretical side of this question, but in reality there are various different principles available for handling it. In the past speed was always organized a little high and whenever there were shortages of goods and materials or imbalances in financial revenue and expenditure, it was always speed which was altered in the mistaken belief that by increasing speed everything would be alright. When it was no longer possible to increase the speed then squeezing and pressure measures were adopted, with responsibility being forcibly passed downward, and thus the eventual outcome was that there was no allowance for unforeseen circumstances, only shortages. Thus, during the implementation of plans, construction put pressure on production and production put pressure on day-to-day life while plans became half-plans or simply nonexistent. This meant that ratios became dislocated and speed could no longer be maintained. In actual fact, planning for unforeseen circumstances not only replenishes one's reserves, it can also provide the motivation to produce increased speed. This was our experience during the First 5-Year Plan period and the 3 years of readjustment. In the short term the speed of increase of industry and agriculture can reach between 6 and 7 percent, although plans only arrange for a 4 to 5 percent increase, thus leaving a 1 to 2 percent surplus. This is the same as leaving a certain amount of production capacity and raw materials in stock and it helps strengthen weak links in the chain and readjust proportional relations. It also helps stabilize the market and enliven the economy. Thus in this way when plans are implemented there can be no slackening of speed, it can only increase, and this has been proved by our past experiences.

In conclusion, of economic results, ratio relations, and increased speed economic results are the most important. At no time may we consider speed in isolation without reference to economic results and proportional relations, nor should we ever strive single-mindedly for high speed. It is these experiences and these lessons for which we have paid so dearly over the last few decades.

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NATIONAL POLICY AND ISSUES

REPORT ON SUN YEFANG ECONOMIC REFORM THEORY

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[Article by Liu Guoguang [0491 0948 0342], Zhang Zhuoyuan [1728 0587 0337]
and Mao Tianqi [0379 1131 0796]: "Several Questions on Sun Yefang's Economic
Systems Reform Theory"]

[Text] Comrade Sun Yefang was an economist of our country who at a relatively early time proposed a reform of our traditional economic systems. At various times between the mid-1950's and the early 1960's, he put forth some tentative ideas about the reform of economic systems and systematically proved his ideas. According to our view, among these tentative ideas and proofs, some have been accepted generally as correct and have been applied to various extents since the third plenary session in the formulation of economic policies by our party and the state; some are correct, though controversies about them still exist in the fields of economic studies and economic work; and some others must be further studied, or must be supplemented or corrected in some aspects in light of the development of practice, though they have a rational basis and contain some good points.

Before his death, Comrade Yefang said: "I do not object to having a meeting for my old colleagues at the economic office to discuss or criticize my economic viewpoints. I hope those viewpoints generally recognized as correct can be widely propagated. At the same time, I hope those one-sided or wrong viewpoints of mine can be criticized without reserve, so that they will not bring harmful effects on society." Our classification of Comrade Yefang's theory and tentative ideas about the reform of economic systems into the above-mentioned three categories is precisely a result of analysis conducted according to his idea. We are now going to concretely examine and analyze his tentative ideas, and in particular, his theory, about systems reform.

He Vigorously Advocated a Reform of Economic Systems Aimed at Improving Economic Results, and Held That Such a Reform Would Be a Breakthrough With Regard to the Existing Socialist-Economy Model

Right at the beginning of a restricted study report which he presented on 2 June 1961, entitled "Questions of Financial and Economic Systems in the Context of Ownership by the Whole People," Comrade Yefang raised a question which had not yet been seriously studied by any economist of our country,

namely, the role of the question of systems in socialist political economics. He clearly stated that economic systems (which he called financial and economic systems at that time) was an important question in socialist political economics. He strongly agreed with Comrade Li Fuchuan's [2621 1381 2504] view of "substituting the question of ownership systems by the question of systems within the economy under ownership by whole people, treating this latter question on an equal basis with interpersonal relations and distribution relations in the labor process (direct production process), and treating it as a major aspect of the production relations to be studied in socialist political economics." Moreover, he made a theoretical explanation, saying that the question of financial and economic systems is not a question of distribution relations, and it also differs from the question of interpersonal relations in labor process (direct production process), that is, the question of division of labor, cooperation, management systems, and so on within enterprises. The question of financial and economic systems is a question of power over management and operation.

Judging from the practice of our country's economic systems reform over the past several years and the experience of reform in other socialist countries, the reform of systems in the economy under ownership by the whole people is truly a major element of the socialist countries' economic systems reform. Moreover, it is actually also a question of dealing with the power over management and operation. Practice also proves that economic systems reform also includes more extensive and varied aspects, such as readjusting the ownership structure, vigorously developing the collective economy, appropriately developing the individual economy, assimilating and using foreign capital, allowing the coexistence of varied forms of economy and operation under the precondition that socialist public ownership predominates, and so on. Economic systems reform also includes reforms in the areas of planning, finance, goods, and materials, pricing, employment, wages, banking, commerce, foreign trade, and so on. It also includes reorganizing enterprises according to the principle of cooperation among specialized units, organizing economic activities according to economic regions, developing central cities' role, and so on. Nevertheless, it is a matter of historical significance for Comrade Yefang to state for the first time that the question of economic systems is an important theoretical topic to be studied in socialist political economics, and to put forth the necessity of grasping power over management and operation and launching the study and reform of economic systems.

We all know that classical Marxist writers repeatedly stated that once the means of production are owned by society, that is, once the socialist system is established, the state of anarchy in social production will give way to planned and conscious organization. Then, through social production, not only can an increasingly more prosperous material life for all members of society be ensured, but an adequate and free development and use of their physical and intellectual abilities can also be ensured. "Socialized men, as producers who have become united, will rationally regulate the material transformation between themselves and nature, and subject it to their joint control, instead of allowing it to be an unchecked force which governs themselves. With the minimum consumption of resources, this material transformation will occur under conditions which are most worthy of and appropriate to their human nature."¹

Thus, "on the basis of joint production, economy of time, and the planned distribution of labor time among various sectors of production will continue to be the primary economic law. This will be in the nature of a law even to a much higher degree."² Therefore, economy of time, improvement of economic results, and satisfaction of people's needs were requirements inherent in the nature of the socialist economy. However, later, people gradually discovered that these requirements were not very satisfactorily fulfilled in some countries in which the socialist system was established. On the one hand, in these countries, because public ownership of the means of production has been established and the masses of people are masters, the productive forces have been liberated, production develops very quickly, national economic strength grows very rapidly, and great success has been achieved. On the other hand, however, despite the people's arduous work and the enormous consumption of natural and material resources, these achievements are not satisfactory. In economic construction and economic work, wasted labor is serious, economic efficiency is not high, and the people's material and cultural needs in life are not duly satisfied. In the mid-1950's, Comrade Yefang had already discerned these problems. After his study tour of the Soviet Union in 1956, he more acutely sensed the gravity of these problems.

On the basis of possessing detailed information and undertaking thorough investigation and study, Comrade Yefang discovered that an important cause of these problems lies in defects in economic systems. The various defects pointed out by Comrade Yefang at that time are as follows:

Because "the role of the law of value in the socialist economy is negated or underestimated," "'sparing neither labor nor money' seems to be the daring spirit necessary to socialist construction."³

Because "the concept of 'value' is negated, it is impossible to draw the conclusion that we must pay attention to economic results and economy of labor time." "The disregard of results of investment in practical work" "results from confusion in concept or thinking. It inevitably results from negating 'the concept of value' and the dual nature (use value and value) of products." (Ibid, p 127)

"Because the state exercises control over those things within the scope of simple reproduction which should have been taken care of by tens of thousands of enterprises as independent accounting units, the state gets bogged down in the realm of routine work but neglects the major planning work related to our country's long-term construction, that is, those things within the scope of expanded reproduction, and the work of maintaining national economic equilibrium." "More important, the enterprises are fettered in their action and their initiative is restricted, so that they cannot make long-term plans about those things which belong to the scope of simple reproduction, and in particular, the replacement of fixed assets." (Ibid, p 144)

"The root of many defects in our planning and statistical methods is that we stress calculating use value at the expense of calculating value. "The principal target we now grasp in our planning, that is, our principal statistical target, is 'total output value.'" However, "the 'total output value' at constant prices

does not reflect our products' value. Instead, it reflects the quantities of material things in monetary form, or use value." "As an indicator, 'total output value' confuses newly created value and transferred value, that is, confuses two different things: labor and materials. Therefore, it cannot correctly reflect the reality of production to the enterprises. Hence, we cannot use it to assess how well an enterprise does its job." It "will not encourage the enterprises to produce light, handy, inexpensive, and high-quality products, but will only encourage them to produce bulky and expensive products." (Ibid, pp 26-28)

Because "our planned target system particularly stresses targets based on material things, so that prices (in particular, prices of things allocated within the state sector) deviate greatly from value, we can only stress equilibrium on the basis of material things in dealing with equilibrium between sectors, because equilibrium on the basis of value can no longer reflect realities." (Ibid, p 150) "Therefore, with regard to relationships inherent in ownership by the whole people, we stress the allocation of material resources at the expense of cooperative relationships and contracts between tens of thousand of enterprises as independent accounting units." (Ibid, p 151) And so on.

In view of the above-mentioned defects, Comrade Yefang clearly stated that "our systems of economic management of the entire society" must be "constantly improved and transformed." ("Certain Theoretical Questions of the Socialist Economy," p 139) It should be particularly pointed out here that Comrade Yefang held that the existing economic systems not only ought to be "constantly improved" or "perfected," but also ought to be "transformed," that is, ought to be "reformed," according to our current terminology. Comrade Yefang always upheld this idea. In the last of his major theses, which was entitled "the success of quadrupling output in 20 years is not only guaranteed by political factors but is also guaranteed by technological and economic factors," he once again clearly said: "We must not be content with patching up the old economic systems, including our planning and financial systems. We must carry out major reforms so that our systems can be fully compatible with the needs of development of the productive forces."⁴

We find that there are different views both in other countries and among the economists and economic workers of our countries as to whether the socialist countries' traditional economic systems should be improved, revamped, and perfected, or should be transformed and reformed. In the 1960's, some countries practicing the traditional economic system put forth the slogan of "economic reform." However, because they lacked determination and encountered obstacles, they soon replaced the slogan of "reform" with "constantly perfecting." Thus, they just revamped some minor aspects of the existing economic systems and avoided any basic reforms. Consequently, old problems in economic work, such as great waste, low efficiency, one-sided pursuit of quantity and speed at the expense of quality and product variety, and so on, have continued to trouble them, and they cannot find any real way out.

Among economists and economic workers in our country, some comrades dare not talk about the "reform" of economic systems, while some others do not agree to discussing the systems reform. They only want to discuss the improvement

and perfecting of systems. They are afraid that discussing "reform" would amount to negating the socialist system of planned economy and our enormous success of the past in socialist construction. We think this is an unnecessary worry. It is groundless to regard economic systems reform as a negation of the socialist planned economy and our past success in socialist construction.

Our country's existing economic system was established in the 1950's basically in imitation of the traditional Soviet Model. It is a system marked by over-centralization, relying mainly on administrative management, and prohibiting the market mechanism. During the initial stage of socialist construction in a relatively economically backward country, when the strategic economic goal was rather simple (rapid industrialization centered around heavy industry) and when the [word indistinct] of economic development was in the stage of development by extension, that is, when expanded reproduction depended mainly on investment in the building of new enterprises, this economic system could still play a positive role, because it relatively effectively made possible the pooling of all our country's human, material, and financial resources, so that the implementation of key construction projects and the attainment of the strategic goals of economic development could be ensured. However, the existing system becomes less and less compatible when socialist economic construction enters a new stage, that is, when the strategic goal of economic development gradually changes from embodying a single objective to embodying a number of different objectives (changing from the one-sided pursuit of rapid industrialization centered around heavy industry to a balanced development of many objectives, which include raising the standard and quality of the people's life and strengthening our national economy and national defense), when the form of economic development gradually changes from relying mainly on extension to relying mainly on intensification, and when it is necessary to stress achieving expanded reproduction through raising efficiency in production. Therefore, in our country and in nearly all other socialist countries which practiced traditional systems, including traditional centralized planning, when economic development reached a certain stage, in particular, since the 1960's or 1970's, the question of reforming economic systems has been put forth, so that socialist socialized large-scale can further develop, economy of time can be achieved, economic results can be enhanced, and the people's needs can be satisfied. The central question is improving the results of economic activities. This shows that reforming the existing economic systems is a requirement inherent in socialist economic development. It is objectively inevitable and is not affected by the people's will. It is not a move which can be boosted by a minority of people Comrade Yefang deserves praise in that he pointed out at a relatively early time in our country the inevitability of this objective development.

In our view, the perfecting of economic systems and the reform of economic systems have a common point, that is, both must be carried out under the precondition that the basic socialist system does not change, and both aim at making the socialist economic base and superstructure more compatible with and conducive to the development of productive forces, so that socialist construction can be quickened and the superiority of the socialist system can be fully brought into play. However, there are also some differences between them, including the following:

First, the constant perfecting of economic systems is applicable to the entire process of socialist economic development, but the reform of economic systems is put forth only when socialist economic development reaches a certain stage. Moreover, it is a task which must be accomplished within a relatively short period of time. For example, in our country, economic systems reform became a task for the whole party and the whole nation, which must be accomplished in a dozen years or so, only as recently as in 1978, in a period from some time shortly before the 3d Plenary Session of the 11th CPC Central Committee to some time shortly after it. Of course, constant perfecting of economic systems will still be necessary after the reform has been basically accomplished. During the period of economic systems reform, relatively great transformations will occur both in the economic base and in the superstructure. Although these will not be major qualitative changes of the entire social system, they will amount to some relatively comprehensive and profound partial qualitative changes.

Second, economic systems reform is not merely the perfecting of some individual aspects or links of the economic base or the superstructure. Instead, it consists of transformations in many aspects and many links. It not only includes a readjustment of the form of ownership, but also includes a reform of the policy formulation systems and the motive force and regulation systems that govern all socioeconomic activities, a reform of the organizational system of economic management, and so on. These reforms must be compatible, so that they can form a complete set. They must be comprehensive and systematic. The accomplishment of our economic systems will cause fundamental changes in our country's economic systems, which occur within the confines of a basic socialist system, so that not only can the basic socialist economic system be adhered to, but due consideration can be given to our country's specific characteristics, and other countries' good experience can be assimilated. Then, our country's economic activities can really be managed and enlivened in the absence of rigidity or confusion. A steady and coordinated national economic development will be promoted under the precondition that economic results are constantly upgraded.

Third, compared with the readjustment or perfecting of certain specific links of the production relations or the superstructure, the economic systems reform will more extensively and more intensively make an impact on people's traditional thinking and affect people's political and economic interests. As we always say, our economic systems reform will be an important matter in our country's political and economic life for the next 7 or 8 years. It will be a major readjustment of the form of ownership of the means of production, a major reorganization of our national economic management system, and a major transfer of economic rights and interests among various parties concerned. Engels said: "Economic relationships in society are primarily reflected in interests."⁵ Therefore, economic systems reforms often encounter relatively great resistance. Those vested interests under the old system which fail to satisfactorily consider questions from the viewpoint of overall interests, and those which have been rather deeply influenced by traditional ideology, will usually spontaneously tend to oppose or thwart systems reform. They will hope that the reform would fail halfway, or will vigorously attempt to turn the basic transformation into a patching up task in the form of improvement, or will discredit reform and take the opportunity to restore the old system when difficulties are encountered in the reform, and so on. In light of our

country's specific circumstances, the current resistance mainly arises from the influences of "leftist" ideology and the force of habit of small producers, as well as from rightist thinking which negates the socialist planned economy and which preaches "all for money" and similar ideas that encourage individualism and cliquishness. Therefore, we must continuously try to eliminate the influences of "leftist" ideology and the force of habit of small producers, criticize the tendency of striving for bourgeois freedom, overcome the mentality of sticking to old ways, fearing difficulties and departmental selfishness, and overcome certain ideological tendencies such as resorting to passive waiting, simplistic thinking, impatience for success, and so on. We must be bold in bringing forth new ideas. However, we must also act with caution, constantly study new circumstances and new questions, conscientiously sum up experience, adroitly guide action according to circumstances, and thus ensure the healthy development of our systems reform.

We hold that economic systems reform can be further summed up as the transformation of a model. What we call the model of an economic system refers to a combination of a system's basic framework and the basic principles governing the system's functioning. It is a relatively stable thing abstracted from a concrete and constantly changing and developing economic system. Originally, there was no set model of development of socialist production relations. Judging from past history and the current situation, since the October Revolution, different models of socialist economic systems did exist in the past and do exist now. In light of its own national condition and the current stage of its own socialist economic development, it is absolutely possible for each country to choose the most appropriate model of socialist economy. The overall "reform" of economic systems differs from the "improving" or "perfecting" of some specific links precisely because the former involves a transformation of model (switching from one model to another, within the confines of a basic socialist system, of course), whereas the partial "perfecting" of some specific links does not necessarily entail a transformation of "model." Although between the mid-1950's and the early 1960's Comrade Yefang did not use the concept of model transformation to sum up the economic systems reform he advocated, the content of his idea did involve the question of reforming the entire model. In 1980, in appraising the great historical feat of Comrade Tito of Yugoslavia, Comrade Yefang explicitly praised Tito for "being the first one to recognize that there should be more than one model of socialism." He said: "Through this visit (referring to Comrade Yefang's visit to Yugoslavia in 1978--authors' note), I can relatively concretely understand that since the early 1950's, under Comrade Tito's leadership, Yugoslavia began to boldly explore the path of socialist construction, abandoning the economic model imported in the past from the Soviet Union, which was marked by over-centralization. After nearly 30 years efforts, a path of socialist construction suited to Yugoslavia's national condition has been opened up. This is the system of socialist autonomy whereby the working people directly manage economic and social affairs on the basis of relying on the masses, developing democracy and perfecting the legal system."⁶ This is a kind of pioneering work in practicing socialism.

Comrade Yefang affirmed that Yugoslavia's economic systems reform under Tito's leadership was a breakthrough against the traditional model of socialist economy introduced from the Soviet Union as well as an attempt to establish a new model of socialist economy. This shows that what Comrade Yefang in his later years really considered as a reform of the socialist economic systems was a transformation of the model of socialist economy, and not merely the improvement and perfecting of certain specific links of economic management. In Comrade Yefang's view, only by carrying out economic systems reform, by breaking through the traditional model of the socialist economy, and by establishing economic systems which are compatible with the requirements of development of the productive forces, the nature of socialism, and our own national condition, can we basically solve the problem of improving economic results, enable the red line he repeatedly advocated, namely, the criterion of achieving the greatest economic results with the minimum consumption of productive resources, to run through all our economic work, and can we thus enable the socialist aim of production to be fully fulfilled.

He Persistently Criticized the Natural Economy Theory and Held That This Theory Is the Major Theoretical Basis of the Traditional Systems

To promote the reform of traditional economic systems, since the mid-1950's, Comrade Yefang began to persistently criticize the natural economy theory which profoundly influenced socialist economic construction both at home and abroad. He held that the natural economy theory was the major theoretical basis of traditional economic systems.

We believe that Comrade Yefang had grasped the crucial problem of the traditional economic systems by persistently criticizing the natural economy theory. Without criticizing the natural economy theory in socialist political economics, we cannot fully prove the necessity of economic systems reform; without eliminating various influences of the natural economy theory on the traditional economic systems, we cannot smoothly implement economic systems reform.

We have said that our country's original economic systems were established in the 1950's under the influence of the Soviet Union's traditional model of systems. The set of Soviet systems had undergone a prolonged course of formation and development.

Marx and Engels predicted that the socialist society would be a society built on the basis of a highly developed capitalist economy, a society in which commodity relations and money relations would no longer exist. However, the development of practice surpassed their prediction. Socialism initially appeared not in some developed countries in the West, but in the Soviet Union, where the natural economy predominated. Initially, the Communist Party of the Soviet Union (Bolsheviks) and Lenin attempted to build socialism according to the prediction of Marx and Engels, abolishing commodities and money. However, owing to the profound influences of old traditions and ideologies, though nominally it was intended that things be done according to the tentative ideas of Marx and Engels, actually methods pertaining to the natural economy were used

to transform society and the economy. When the Soviet Union practiced "wartime communism," many non-economic administrative measures were implemented on the basis of the natural economy ideology. These measures caused the Soviet economy to gradually change into an economy based on material things. At that time, many famous Soviet economists held that exchange was not the basis of a socialist society, and between production and consumption only conscious, systematic, and organized distribution should exist. They also held that in the economy of the communist society, interpersonal production relations, as in the primitive commune, would be conscious and direct relations which would be clear at a glance. In the primitive commune, the head of the commune directed all production activities; in a socialist society, all production activities in society would be governed by centralized and unified planning. In the 1920's, when Comrade Sun Yefang was studying at the Zhongshan [0022 1472] University of the Soviet Union, similar viewpoints prevailed on a wide scale. He recalled that at that time, all teachers said in class: because socialist labor is planned, therefore, production relations are also clear at a glance; our social division of labor is actually a kind of technical division of labor; what and how much to produce, and also what you supply to me or what I supply to you, are determined in a centralized way. (See "Certain Theoretical Questions of the Socialist Economy," pp 175-176)

However, the above-mentioned theory and practice put the Soviet economy into a predicament. Practice called for a correction of theoretical mistakes and a reversal of the process whereby the economy became increasingly dependent on the flow of material things. In the fall of 1921, Lenin said: "We originally intended to directly use the laws and decrees of a proletarian state to readjust production and distribution of products in our country, where small-scale farming predominates, according to communist principles. (Or, more accurately, we presumed the validity of this method on inadequate grounds.) Real life experience proves that we have committed a mistake."⁷ The Communist Party of the Soviet Union (Bolsheviks) and Lenin then changed to some new economic policies. Actually, these new policies aimed at developing the production and distribution of commodities on the basis of the public ownership of the means of production, "with the exchange of commodities raised to a position of prime importance and used as the principal lever in the new economic policies."⁸ Hence, Lenin put forth a series of methods whereby the management of state enterprises was improved according to market principles, by using commodity and monetary relations. "To a considerable extent, state enterprises had to put commercial principles into practice."⁹ Lenin also stressed: "The new economic policies do not aim at changing the system of unified state economic planning or surpassing the scope of this kind of planning. Instead, they aim at changing the methods of practicing this kind of planning."¹⁰ An important principle inherent in these new policies was that administrative means of centralized management was to be replaced by flexible economic means. In view of real life facts related to the development of the cooperative economy, Lenin made this profound remark: "We cannot but admit that our overall view of socialism has basically changed."¹¹ With the implementation of the new economic policies, socialism took over one position after another in various realms of the national economy. In particular, after the overall collectivization of agriculture in 1931, how the socialist economy ought to be organized and managed became a problem. Many people held that the new economic policies were applicable only to the transition period during which capitalism was giving

way to socialism, but would not be applicable after the establishment of the socialist economic system. Therefore, economic systems marked by over-centralization relying mainly on administrative management and prohibiting the market mechanism, began to be practiced again. At that time, predominant views held that the law of value conflicted with the planned economy and it was even unnecessary to apply objective economic laws in formulating plans. To sum up, the natural economy theory and the theory of the unique importance of willpower, marked by precluding value and the law of value, once again widely prevailed.

In 1952, in "Economic Problems of Socialism in the USSR," Stalin explained the theory behind the Soviet Union's economic systems and economic model. For one thing, he acknowledged the objectivity of economic laws, criticized certain widely prevailing viewpoints which were based on the theory of the unique importance of willpower, and pointed out that the ideas of "creating" and "transforming" economic laws were "grossly erroneous." For another thing, he also acknowledged that under socialist conditions, the production and exchange of commodities would inevitably exist and the law of value would play an important role. These ideas were important contributions to socialist political economics. On the other hand, however, when Stalin acknowledged that developing the production and exchange of commodities was necessary and the law of value played an important role, he did so merely in the context of the existence of two different systems of public ownership. In many aspects, particularly with regard to relations inherent in the economy under ownership by the whole people, he still insisted on viewpoints of the natural economy theory. For example, he negated the role of the law of value in regulating socialist production and held that the role of the law of value was in contradiction to planned national economic development and to the building of socialism and communism; he negated the fact that the means of production as products are commodities and advocated developing the direct distribution of goods and materials, that is, allocation and rationing; he negated the fact that exchange and circulation are independent economic processes and held: that production relations as a subject in political economics excluded exchange and circulation; and so on.

Thus, it can be seen that the natural economy theory always tenaciously finds expression in socialist economic work and theory, and profoundly influences the selection of economic management systems by socialist countries. In his "Report on Criticisms on My Views by Comrades in the Economists Circle, Presented to the Propaganda Department of the CPC Central Committee, the Theoretical Group of the CPC Central Committee, and Leading Group of the State Planning Commission," presented on 7 October 1964, Comrade Yefang explained the definition of the natural economy theory. He said: The natural economy "holds that after the dying out of the commodity economy the material basis of commodity fetishism will no longer exist; interpersonal production relations will be clear at a glance; social wealth will appear in the form of a large quantity of use value; products will no longer possess the dual nature of having both value and use value; labor will no longer possess the dual nature of being both concrete labor and abstract labor; and various economic categories derived from value, such as price, profit, production price, and so on, will even more definitely cease to exist." Comrade Yefang continued

to say that all this shows that "the 'natural economy theory' does exist in the economists' ideology. This is a theory which radically and firmly negates the category of value in a socialist society." ("Certain Theoretical Questions of the Socialist Economy," p 327) He also rather thoroughly revealed various ways in which the socialist planned economic systems of the Soviet Union and China were affected by the natural economy theory, such as:

--The accounting viewpoint of achieving the greatest economic results with minimum labor consumption was not adopted. Either expenses or results was stressed at the expense of the other. Profits and losses were ignored. High consumption and poor results were glossed over on the pretext of basing evaluation on political criteria.

--The viewpoint of the dual nature of products or labor was absent. There was an absence of centralized management over targets based on value and targets based on use value. The state planning departments paid attention only to targets concerning quantities of material things, such as targets concerning speed, categories and varieties of products, output, and total output value, while targets based on value were the responsibility of financial departments. Consequently, production was divorced from needs. The enterprises carried out production according to targets assigned from higher authorities. Very often, however, the products were unmarketable, leading to overstocking, while the items needed by society were not produced.

--The viewpoint of circulation was absent. The economy under ownership by the whole people was regarded as a large factory. Technical division of labor like that practiced within a factory was used to replace social division of labor. Exchange of labor replaced exchange of products. Rationing was considered as tantamount to distribution, and it replaced exchange and circulation. The means of production as products were not allowed to enter the realm of circulation. Tens of thousands of products differing in variety or specifications were all handled in a centralized way by the goods and materials management departments, which administered the rationing of these material things.

--The viewpoint of exchange at equal value was absent. Price was considered as the unit for measuring value. Exchange at equal price was substituted for exchange at equal value. Planned value was unrealistic, so that the proportional relationships between various national economic sectors were distorted. In particular, the scissors difference between the prices of industrial and agricultural products was maintained for many years. Actually, this amounted to using extraeconomic methods to collect "tributes and taxes" from the peasants.

--The concept of capital funds accounting was absent. The supply system was practiced in the provision of capital funds. Results of the use of capital funds were not stressed. Thus, a scramble for investment funds and equipment was encouraged, resulting in funds lying idle and being wasted.

--The concept of the wearing out of fixed capital assets was absent. The depreciation rate was artificially lowered, with an increase in the time allowed for depreciation. Basic depreciation funds were turned over to the financial

authorities and in this way costs were considered as income. In major repairs, the principle of "no transformation, no increase in asset value, and no change in location" was practiced. All this caused the enterprises to undertake "duplicate manufacturing of obsolete products," resulting in a freezing of technological progress.

Comrade Yefang often talked about these phenomena in his articles and speeches. Actually, it appears that the influences of natural economy ideas are much more extensive than what has been described above. In the economic life of past, the ownership structure precluded diversified forms of economy and operation; the structure of economic decisionmaking was marked by over-centralization of power and the enterprises and individual workers did not have the requisite decisionmaking power over economic activities; the regulation system precluded market mechanism; management mainly depended on administrative methods and targets based on material things; the organizational structure was marked by the establishment of large and complete units as well as small and complete units, and also marked by isolation of departments and localities from each other; the structure of interests and motive force was marked by egalitarianism and "eating out of the big rice pot"; and so on. All these phenomena directly or indirectly reflect the influences of the natural economy theory and ideas on our economic systems. Precisely because the natural economy theory extensively and profoundly affected our traditional economic systems, Comrade Yefang clearly stated that in studying and practicing economic systems reform, "it is very necessary to criticize and negate this kind of ideology which pertains to the natural economy theory." ("Certain Theoretical Questions of the Socialist Economy," p 151)

Comrade Yefang also thoroughly analyzed the tenacity of the natural economy theory from the viewpoint of historical reasons. Success in socialist revolution was initially achieved in economically relatively backward countries such as Russia, Eastern European countries, and China, where the tradition of large-scale socialized production was absent, the production of commodities was not well developed, and production relations of the pre-revolution natural economy, comprising the small-scale farming economy and feudal manors, had predominated in many localities for many years. An inevitable result is that certain tentative ideas and arguments of Marx and Engels about the future socialist society are interpreted, accepted, and explained by people in the spirit of the world they live in. Thus, some comrades are liable to confuse the planned economy with the natural economy, and confuse the law of value and the market with spontaneous capitalist forces.

After the adoption of the traditional economic systems in our country, it was quickly integrated with our country's "old and outdated production methods and the accompanying outdated social relations and political relations." Thus, these systems were gradually consolidated and became particularly tenacious and orthodox. It was no wonder that in the 1950's, when reforms of the traditional Soviet model were carried out in some European countries, we criticized such reforms as revisionism. Comrade Yefang's theory and tentative ideas about carrying out reforms in our country were also attacked as heresies.

After the 3d Plenary Session of the 11th CPC Central Committee, under the leadership of the CPC Central Committee and the State Council, we started the reform of our existing economic systems. Comrade Yefang's criticisms of the natural economy theory has gradually been accepted by some comrades among our economists. The theory of the role of the law of value in the socialist economy has been more deeply understood. This law has gradually won the attention and respect of a larger number of people.

Thanks to our experimentation in economic systems reform over the past several years, we have gradually acquired a clear understanding of the principles which we should follow in undertaking economic systems reform and the goals we should attain. These principles and goals are as follows: Under the precondition that we uphold the leading role of the state sector of the socialist economy, we must correctly develop diversified forms of economy and operation and build an ownership structure suited to our national condition; under the precondition that we rely mainly on the planned economy, we must correctly develop the supplementary role of regulation by market mechanism, establish a rational planning system, and strengthen the state's effective management and guiding of all economic activities; we must organize various kinds of economic activities according to relations inherent in the economy and the requirements of large-scale production; we must gradually build trans-regional or transoccupational economic networks and economic zones with various scopes and at various levels, which have cities as their centers; we must safeguard and develop the unified socialist market; we must correctly deal with the interests of the state, the collective, and the individual, and, under centralized state leadership, we must fully develop the enthusiasm of the localities, departments, and enterprises in improving production, operation, and economic results; and we must correctly and earnestly implement the principle of "from each according to his ability, and to each according to his work," resolutely overcome egalitarianism, and end the system of "eating out of the big rice pot," so that workers can really enjoy the appropriate material benefits according to the quantity and quality of work done. We should take these points as our basis, adhere to the correct orientation of economic systems reform, consolidate and perfect the initial reforms we have undertaken, and vigorously grasp the formulation of overall plans for reform and procedures of implementation of these plans, so that an overall reform can be gradually launched during the Seventh 5-Year Plan period. We think that to pave the way in the ideological and theoretical realms for this reform, it is still necessary to carry forward Comrade Yefang's scientific spirit, resolutely oppose the natural economy theory in socialist political economics, analyze and criticize various ways in which the natural economy ideas are reflected in our traditional economic systems, and further eliminate their influences.

One point needs to be clarified here. Some comrades hold that the principal characteristics of the traditional economic systems is that they have been established on the basis of the "product economy." For example, Comrade Wang Zhuo said: "Our country's economic systems reform aims at changing the planned economic system of production of products into a planned economic system of production of commodities." He also said: "Our country's existing economic systems have many defects, for example, a lack of separation between administrative authorities on one side and economic agencies, communes, and enterprises on the other; isolation of one department from another, of

localities from departments, and of cities from the countryside; egalitarian tendencies of 'eating out of the big rice pot'; and so on. All these defects were caused by practicing the production of products too soon and without consideration of the present historical stage."¹² We think the principal defects of the old systems, including those mentioned by Comrade Wang Zhuo, do not arise from the production of products and the product economy. It is now difficult to envision the future product economy as characterized by no separation between administrative authorities on one side and economic agencies, communes and enterprises on the other; isolation of one department from another, of localities from departments, and of cities from the countryside; and egalitarian practices of "eating out of the big rice pot." Moreover, whether we consider the question from the viewpoint of historical background or from that of current real circumstances, what affects real economic life is not the product economy outlook, but the natural economy outlook, whereby the socialist economy is "viewed as an economy based on material things as in the primitive communist society, that is, a natural economy in which concepts such as abstract labor, value, prices, and money are absent." However, theoretically speaking this natural economy outlook is passed off as the "product economy outlook." Many people even believe that they are really doing things according to the product economy theory of classical Marxist writers. Actually, however, as criticized by Comrade Yefang, they often consciously or unconsciously view the socialist society as identical to "a centralized planning body" replacing the head of the primitive tribe." ("Certain Theoretical Questions of the Socialist Economy," p 60) If we think that the current defects are caused by practicing the product economy too soon, then we are liable to gloss over the reactionary influences of feudal natural economy ideology on socialized large-scale production as the goodwill of a few personalities. It appears that this view cannot help us eliminate ideological obstacles in an effort to vigorously and steadily reform our economic systems.

Comrade Yefang's Basic Model of New Economic Systems Involves Basing Planning on the Law of Value

While criticizing the natural economy theory embodied in the traditional economic systems, Comrade Yefang also positively stated that planning must be based on the law of value. This is actually his overall tentative idea, or his basic model, of new economic systems.

We must first explain here that the law of value referred to by Comrade Yefang is not identical to the law of value referred to by many other comrades. In 1959, at the national economic theory forum held in Shanghai, Comrade Yefang said that the law of value that he was thinking of was mainly the second law of value, that is, what he later called "the law of product value." In his article entitled "The Law of Value Is of Prime Importance Among Tens of Thousands of Laws," he more clearly stated that what he called the law of value was the law of economy of time, and included "the law of planned proportionate development." (Ibid, p 372) Moreover, he acknowledged that the production of commodities still exist under the condition that there are two forms of socialist public ownership, and therefore, what he called the law of value sometimes also included the law of commodity value. If what Comrade Yefang called the law of value is interpreted in such a broad sense,

then his proposal of basing planning on the law of value is basically tantamount to our usual viewpoint that while planning should mainly be based on the basic economic law of socialism and the law of planned proportionate development of the national economy, it should also be based on the law of value. However, in purely theoretical analysis, because Comrade Yefang held that only ownership by the whole people can represent the essential relations of socialism but this ownership is not connected with commodities, therefore, he tended to stress "the law of product value" rather than "the law of commodity value," though these two "laws of value" usually cannot be clearly distinguished when they are applied in a study or discussion of specific questions of economic systems.

By proposing basic planning on the law of value, Comrade Yefang made a breakthrough against the traditional economic systems in two respects.

First, he unified the planned economy and the law of value. Under the old systems, these two things stood in contradiction to each other. Stalin said that under the condition of the socialist planned economy, "the role of the law of value is strictly restricted by certain limits."¹³ In the running of the planned economy, the law of value could not be allowed to play a wide-ranging role; otherwise, the planned economy could not exist. Comrade Yefang sharply criticized this viewpoint, saying: "the law of value and the planned management of the national economy are not mutually exclusive. Moreover, they are not two independent laws of equal status. Planned and proportionate national economic development can be achieved only on the basis of the law of value. Those economic policies (including pricing policies) and economic plans characterized by disregarding the law of value and working according to subjective intentions alone will ultimately disrupt all proportional relations and hinder the rapid development of the national economy. Subjectivist stressing of planning will only cause planning to be divorced from reality." ("Certain Theoretical Questions of the Socialist Economy," p 12) This analysis very accurately pinpoints the defect in our frequent formulation of unrealistic economic plans. The above-mentioned viewpoints, which Comrade Yefang loudly advocated and propagated for over 20 years, have now been gradually understood by a larger number of people. Many comrades have begun to believe that to shift our economic work to the track of improving economic results, the key question is the satisfactory handling of the relationship between the planned economy and the law of value. It has been clearly stipulated at the 12th CPC Congress that when formulating either directive plans or guidance plans, the state must fully consider and apply the law of value.

Second, in planning, statistical work, and accounting work, targets based on material things and targets based on value are unified, with the latter playing the principal role. Under the old systems, because the creation of use value is one-sidedly understood as the goal of socialist production, therefore, planned statistical targets stress the quantities of material things at the expense of the magnitude of value, and stress total output value, which reflects the results of production, at the expense of analysis of the composition of the results, that is, the proportion between newly increased output value and transferred output value. To create greater use value, we must raise labor productivity, and therefore, we should pay attention to calculating labor

consumption. Comrade Yefang said: In our planning and statistical work, "we should pay attention to calculating the value of material products produced, that is, we should pay greater attention than we do at present to calculating, analyzing, and studying costs and labor productivity; we should pay greater attention to compiling national economic equilibrium tables and to calculating, analyzing, and studying national income; and we should pay greater attention to analyzing and studying the proportional relationships between national income and fiscal revenue, between production on one side and accumulation and consumption on the other." (Ibid, p 13) This view of Comrade Yefang is of great value. He often made this vivid analogy: Grasping targets based on material things is like raising a cow by its legs to move it, so that it is very difficult to make the cow advance a few steps even with great effort; however, grasping targets based on value is like leading a cow by its nose, so that without using much effort one can cause the cow to advance. Only by relying mainly on grasping targets based on value can we relatively smoothly economize on labor and improve results, so that we can produce greater and better use value to satisfy social needs.

What tentative ideas are there concerning concrete aspects of Comrade Yefang's new systems whereby planning is based on the law of value? These ideas can be summed up in the following:

First, the power and responsibility of the state and the enterprise over simple reproduction and expanded reproduction, with regard to the value of capital funds used, must be defined. All matters in which the value of capital funds stays within the fixed original limits without any need for increased investment by the state belong to simple reproduction. These matters include the management of basic fixed assets depreciation funds, the renewal and transformation of equipment, and so on. They should be within the enterprise's "minor jurisdiction" and should be planned by the enterprises themselves, so that the enterprises can become independent accounting units of production. All matters in which the value created by surplus labor is converted into new investment, and in which the original value of an enterprise's capital funds is exceeded, belong to expanded reproduction and should be within the state's "major jurisdiction." The state should handle these matters according to its capability and exercise strict control. If the state inappropriately interferes with the enterprises' "minor jurisdiction," the enterprises' initiative in undertaking independent operation will be limited. If the state does not control new investment, the capital construction front will become too extensive and there will be confusion in the macroeconomic arena. It should be pointed out here that in the past, some comrades misunderstood Comrade Yefang as an advocate of decentralization of power. In fact, he always greatly stressed the need for the state to pool accumulation funds to carry out key construction projects to achieve expanded reproduction. He held that this is a "major jurisdiction" which cannot be relinquished by the state.

Second, the state must stress the management of the magnitude of value, while equilibrium in targets based on use value must be achieved through contracts between enterprises. All state planning must be based on contracts. The building of new enterprises must be ensured, through a process of going from

top to bottom, by various contracts concerning supply and selling. Plans concerning general projects must be formed, through a process of going from bottom to top, by pooled equilibrium in drawing up contracts. Once a contract is signed, both parties involved must rigorously fulfill it.

Third, we must change the system of supply of goods and materials whereby the state allocates and distributes the means of production in a centralized way. Within the economy under ownership by the whole people, the supply of the means of production must be brought into the channel of circulation. That is, relations of purchase and selling between enterprises, departments and localities should replace the traditional system of supply of material things.

Fourth, profit should be the comprehensive or key indicator of technological level and standard of management and operation. Under the precondition that planned prices are based on production price, the state must assess the results of an enterprise's economic activities according to its profit rate based on capital funds used. The social average profit rate based on capital funds used is the level which every enterprise must attain. Advanced enterprises are those which surpass this level, and backward ones are those which fail to attain it. The system of using capital funds gratuitously must be abolished. The principle of paying a price for using capital funds must be implemented.

Fifth, exchange at equal value must be carried out. In the first place, within different systems of public ownership, the principle of exchange at equal value between industrial products and agricultural products must be implemented, and the scissors differences between the prices of industrial products and the prices of agricultural products must be gradually reduced or even eliminated. Moreover, within the economy under ownership by the whole people, exchange at equal value between various departments, localities, and enterprises must also be carried out. Therefore, prices must be as close to value (or production price) as possible. He objected to the argument that there would not be any pricing policies if prices do not deviate from value. He did not agree with the view that prices should be used as a lever in national income redistribution. He held that the most important function of prices is related to social labor consumption accounting. Under general conditions, the positive role of prices in socialist production and circulation can be rather satisfactorily brought into play only when they are compatible with value (or production price).

The core of these several tentative ideas that the relationship between the socialist state and the enterprise should be handled as an economic relationship. Comrade Yefang was the first economist in our country to shift the focus of economic systems reform from the relationship of power distribution between the central authorities and the localities to the economic relationship between the state and the enterprises. He furnished a clear and simple economic quantitative limit for handling this relationship. Comrade Yefang said that it was his original idea to draw a line of distinction between the enterprise's "minor jurisdiction" and the state's "major jurisdiction" according to the value of capital funds used in simple reproduction and expanded reproduction.

Although there are different views on this proposal and the practice of reform over the past several years has surpassed this limit (part of the funds for expanded reproduction can also be included in the enterprises' retained profit), it is still an original view of great theoretical and practical significance. Moreover, we also find that because Comrade Yefang stressed the law of product value and not the law of commodity value, his model of economic systems basically precludes commodity and money relations. As early as in the 1950's and 1960's while vigorously challenging the natural economic theory, he also objected to bringing commodity and monetary relations into the system of ownership by the whole people. Actually, he proposed using the law of product value to regulate the commodity relations between the two forms of socialist public ownership which he acknowledged. The most obvious example is that he objected to collecting indirect taxes from the peasants by making prices deviate from value, but advocated levying direct taxes and eliminating the "scissors difference." That is, even in dealing with the relationships between different ownership systems, he objected to using prices as an economic lever. He considered the tendency of objecting to the natural economy theory and that of objecting to the commodity economy theory as two fronts in economic ideology. ("Certain Theoretical Questions of the Socialist Economy," p 216) In the 1970's and 1980's, while persistently continuing to criticize the natural economy theory, he still criticized some comrades for going to extremes, saying that whereas they initially basically negated the regulatory role of the law of value in the economy under ownership by all people, when they later acknowledged this role, they went so far as to bring commodity and money relations into the system of ownership by all people. We absolutely agree with Comrade Yefang's criticism of the natural economy theory. However, we think it appears that we should further discuss his criticism of the commodity economy.

We all know that, basically speaking, the socialist planned economy must fulfill two requirements: First, social labor must be rationally distributed and appropriate national economic proportions must be correctly planned for and maintained, so that equilibrium between production and needs is attained and products satisfy social needs; and second, the consumption of living labor and materialized labor must be economized to achieve the greatest economic results. Comrade Yefang's works very brilliantly expounded these two requirements and powerfully denounced the natural economy theory. He said that if proportions "are not viewed as proportions of socially necessary labor and proportions of value, but are considered or mainly considered as proportions of use value, then, quotas based on technology and skill would replace the equilibrium between various production sectors in socially necessary labor (including equilibrium in materialized labor and living labor) and replace equilibrium in value, so that the principle of exchange at equal value is violated." ("Certain Theoretical Questions of the Socialist Economy," p 331) He also said: "Economic results refer to the result of investment and the level of labor productivity, both of which belong to the category of value. Because in the past the majority of economists regarded the economy of the future society as a natural economy, the result of investment has been considered over many years as a capitalist economic category," thus leading to a high rate of consumption of productive resources and poor results; "theorists must be responsible for this." (Ibid, p 127) This is a convincing and penetrating judgment. However, how can we achieve equilibrium and be economical? At the present stage, it is very difficult to do away with commodity and money relations in regulating economic activities.

From the viewpoint of practice, whether or not we acknowledge the existence of commodity and money relations will tremendously affect the development of the socialist planned economy. Over the past 30 years or more, there were two periods in which our country's socialist construction developed rather rapidly, namely, the First 5-Year Plan period and the readjustment period of the 1960's. These two periods differed from other periods in that greater attention was paid to developing commodity and monetary relations and to respecting the law of commodity value, so that satisfactory cooperation existed between the cities and the countryside, relatively appropriate relationships existed between agriculture, light industry, and heavy industry, and various sectors and industries paid attention to economic accounting and to improving economic results. However, in our national economic development, there were also two periods in which there were relatively great setbacks, namely, the Second 5-Year Plan period and the "Great Cultural Revolution." In both periods, under the guidance of "leftist" ideology, the law of value and exchange at equal value were not respected; people tried to abolish commodity and money relations or rejected these relations on the grounds that the development of commodity and money relations would inevitably lead to capitalism; serious disproportion in the national economy resulted; shocking waste and losses in economic construction occurred; and the results of economic activities deteriorated. Of course, all this was also inextricably connected with the political and economic disruption caused by Lin Biao, Chen Boda, and the "gang of four." Since the 3d Plenary Session of the 11th CPC Central Committee, national economic development has been rather smooth. There are many reasons for this, of course. However, this is inextricably connected with our party's guiding principle of respecting objective economic laws, including the law of value, in economic construction and economic work, and of affirming the "vigorous development of socialist production and exchange of commodities." We find that commodity and monetary relations have not only greatly developed between different ownership systems, but have also extensively developed within the economy under socialist ownership by all people. For example, state enterprises are acknowledged as relatively independent producers of commodities; the enterprises' decisionmaking power is extended over operation; lot after lot of the means of production have entered the market as commodities; economic cooperation between enterprises, localities, and departments has been organized; and so on. Such developments of commodity and monetary relations motivated, forced, and empowered the producers to develop production under the forces of objectively existing and inherent economic mechanisms.

Why then is it inevitable that commodity and monetary relations exist in the economy under socialist ownership by all people? We all know that on the basis of socialist public ownership of the means of production, the interests of the following three parties coincide: the state, which represent the people's interests, the production units, which practice independent accounting, and the individual workers. This is the most deep-rooted economic basis for the possibility of practicing the planning system. However, between them there also exist differences and contradictions in economic interests, which constitute the basic reason behind the existence of commodity and monetary relations. In

the stage of socialism, work is not yet the primary need of life as in the stage of communism, but is still a means of earning a living. Differences in workers' abilities and contributions must inevitably be reflected in the magnitude of economic interests. Otherwise, development of the workers' enthusiasm will be affected. Moreover, the results of the operation of enterprises as workers' collectives must also inevitably be reflected in differences in the enterprises' relatively independent economic interests. Otherwise, the enterprises' enthusiasm in improving management and operation will also be affected. Such differences and contradictions in economic interests must still be regulated by the principle of exchange at equal value. Hence, it is necessary to preserve commodity and monetary relations. Comrade Yefang vigorously advocated economic systems reform and stressed the importance of the law of value. However, he did not seriously consider the inevitability and importance of preserving commodity and monetary relations within the economy under socialist ownership by the whole people, because his law of value is generally not linked to the production and exchange of commodities. It is a law of product value, which only plays a role in social labor consumption accounting. Moreover, he generally objected to using the deviation of prices from value as a lever for regulating social production and circulation. A possible reason is that he paid excessive attention to coincidence in people's interests under socialism and neglected differences in interests. We find that in Comrade Yefang's articles and speeches of the 1950's and 1960's, whenever he criticized the natural economy theory, he also simultaneously criticized the viewpoints on the principle of stressing material interests. He said: "Because the profits created by enterprises under socialist ownership by the whole people amount to some wealth created by the workers of the enterprises for the sake of society's expanded reproduction and for satisfying social and public needs, therefore, all these profits must be turned over to the state. However, revisionists advocate systems whereby enterprises retain part of their profits and reward systems, which are guided by the principle of material incentive." ("Certain Theoretical Questions of the Socialist Economy," pp 261-262) Of course, Comrade Yefang adhered to the principle of socialist distribution according to work done and objected to relying on material incentive in all cases. He also did not object to the material incentive principle in a general sense and particularly stressed and paid attention to the state's overall interests. All this is correct and is of practical significance even now. However, in stressing the above-mentioned correct viewpoints, Comrade Yefang had gone a bit too far. Actually, he proposed completely abolishing systems whereby enterprises retain part of their profits and reward systems. Although he revised this viewpoint after the smashing of the "gang of four," he still did not consider how it influenced his system of theory of the socialist economy.

Why did Comrade Yefang neglect differences in people's interests in his system of theory of the socialist economy? We think there may be two reasons.

The first reason concerns the political circumstances of the 1950's and 1960's. We all know that Comrade Yefang's theoretical viewpoints about the socialist economy, which have characteristics of its own, were basically formed in the 1950's and 1960's. In those times, the theory of the unique importance of subjective will widely prevail. Comrade Yefang waged a struggle against this theory, maintaining a clear-cut stand. However, we should know that man is a

product of his environment. We cannot say that in the face of the nationwide "leftist" tendency of criticizing material incentives, he was not influenced to the slightest degree. He said: "At that time, Chen Boda and Zhang Chunqiao initiated a 'communist trend of thought and practice,' marked by opposing material incentives and negating distribution according to work done. Under the influence of this trend, I negated in a general sense bonuses and the retaining of profits by enterprises." This was a "'leftist' ideology." (Ibid, p 3) He also said: "'Leftist' disorder is a contagious disease of socialist countries. Our country is no exception, where small producers were originally in the overwhelming majority. This 'leftist' disorder is invariably present in each of us, though to different degrees."¹⁴ This is an example of self-criticism by a proletarian revolutionary who was open and aboveboard.

The second reason is that there are some shortcomings in his methodology for studying the socialist economy. We all know that in Marxist political economics, the method of description must be distinguished from the method of study. Study goes from the concrete to the abstract, but description is the other way around, going from the abstract to the concrete, and from simple categories to complicated categories. In his study of the socialist economy, Comrade Yefang's subject is a socialist system of ownership by the whole people which is solely based on subjective will. He advocated using the method of "undressing" to temporarily leave aside some nonessential and less important phenomena in socialist economic movements, and then later use the method of "dressing" to bring these phenomena into his study when the essential and principal economic phenomena have been clearly understood through study. In principle, this study method is correct. However, what should or should not be left aside in undressing is an important question. Lenin said: "Man can only experience a direct transition from capitalism to socialism, that is, to public ownership of the means of production and distribution according to work done."¹⁵

Therefore, socialist ownership in its pure sense should be public ownership of the means of production plus distribution according to work done. However, in Comrade Yefang's methodology, distribution according to work done is put aside as a nonessential and less important factor of socialism. Not only is this view hardly convincing in theory, but it also leads to the neglect of the question of socialist economic interests in his entire theoretical system.

However, while using the "undressing" method, that is, the method of abstraction, Comrade Yefang also stressed that the socialist society is an ever-changing and complicated society, and that we must proceed from reality in studying it. Therefore, respecting the principles of exchange of commodities and exchange at equal value "is the key factor that determines whether the relationship between the cities and the countryside and that between industry and agriculture can be satisfactorily handled." In Comrade Yefang's mind, vigorously developing the production and exchange of commodities within the two systems of socialist public ownership is of great significance to socialist economic development. Moreover, on this basis he stressed that "the contacts between state enterprises unavoidably and to a certain extent involves commodities. The exchange between

them still needs to be in the form of an exchange of commodities." ("Certain Theoretical Questions of the Socialist Economy," p 81) The experience of our country's experimental reform of economic systems since the 3d Plenary Session of the 11th Central Committee enhanced his understanding of socialist commodity and monetary relations. He began to notice the differences in interests between the enterprises and the workers. In May 1982, in his letter addressed to the inauguration meeting of the Chinese commerce and economics society, Comrade Yefang stressed, in consideration of developing the economy under socialist ownership by the whole people, that production serves the consumers, not the warehouses, and that a viewpoint held in the past by people, that of stressing commerce as a kind of production without stressing the commercial aspect of production (that is, marketability), is a one-sided viewpoint. The question of realizing W-G [expansion unknown] also exists in the case of enterprises under ownership by the whole people. We should proceed from this point in reforming the existing planning systems, he advocated. This is a major development of his theoretical viewpoints. We believe that if not for the illness which too soon deprived him of the freedom to do research work, he would have proceeded from reality to make a new and more complete exposition of his theory.

FOOTNOTES

1. Marx: "Das Kapital," the People's Publishing House, 1975 edition, pp 926-927).
2. Marx: "Collected Works of Marx and Engels," "A Critique of Political Economics (Draft of 1857-8)," Vol 46, Part I, p 120.
3. Sun Yefang: "Certain Theoretical Questions of the Socialist Economy," "Base Planning and Statistical Work on the Law of Value," the People's Publishing House, 1979 edition, p 3.
4. See RENMIN RIBAO, 19 November 1982.
5. "Selected Works of Marx and Engels," "On the Housing Question," Vol 2, p 537.
6. See "Hu Qiaomu and Sun Yefang Say That Tito Was the First One To Recognize That There Should Be More Than One Model of Socialism," RENMIN RIBAO, 7 May 1980.
7. "Collected Works of Lenin," "The 10th Anniversary of the October Revolution," Vol 33, p 39.
8. Ibid, "The Tenth National Congress of the Communist Party of the Soviet Union (Bolsheviks)," Vol 32, p 424)
9. Ibid, "The Role and Task of Trade Unions Under Conditions of the New Economic Policies," Vol 33, p 156.

10. Ibid, "To G. M. Krzhizhanovsky," Vol 35, p 534.
11. Ibid, "On the Cooperative System," Vol 33, p 429.
12. "A Study of the Theory of Economic Systems," NANFANG JINGJI [SOUTHERN ECONOMIC JOURNAL], No 1, 1983.
13. "Selected Works of Stalin," "Economic Problems of Socialism in the USSR," pp 586-587.
14. "Certain Theoretical Question of the Socialist Economy (Part II)," "Why Is Readjustment Necessary? An Important Question We Should Notice in Readjustment," the People's Publishing House, 1982 edition, pp 241-242.
15. "Collected Works of Lenin," "The Task of the Proletariat in Our Country's Revolution," Vol 3, p 62.

CSO: 4006/38

ECONOMIC MANAGEMENT

TAPPING POTENTIALS OF EXISTING ENTERPRISES STRESSED

Guangzhou GUANGZHOU RIBAO in Chinese 23 Jul 83 p 2

[Report by Ye Lifei [0673 7787 5481]: "Stress Tapping Potentials as the Major Link in Raising Economic Results"]

[Text] "There a'e bright prospects in tapping the productive forces of existing enterprises. We must stress it as a major link in raising economic results. The urgent tasks on the industrial front at present are to practically and realistically check waste in manpower and material resources in integration with the rectification and reform of enterprises, and, through economic cooperation and technological transformation, effectively raise labor productivity." At the municipal people's political consultative conference, then specialists on the industrial front proposed this issue, which aroused the attention of the members.

A new topic in tapping potentials is to strengthen the economic alliance and technological cooperation among the various production departments. Jiang Haitao, deputy chief engineer and senior engineer of the municipal textile industrial bureau, proposed the following: In developing modern industry, we must change the situation in which the various trades and undertakings are securing their own boundaries and going their own ways. Our municipality's textile industry lacks natural resources. Many raw materials have to be purchased from other places. The cost is high and the development of production is restricted. It is unsuitable to grow cotton on a large scale in Guangdong. But if we can form allinances with the agricultural departments and develop rabbit raising in a planned manner, we can provide raw materials for woollen knitwear and open up a new path for the development of high-grade woollen knitwear which is popular both at home and abroad. At the same time, in reforming our technology, transforming old facilities and developing new products, we must carry out cooperation that crosses the boundaries of the various trades and undertakings. For instance, in order to change the present backward state of looms, we can consider importing the technology of manufacturing rapier looms. This will only become effective with the cooperation of the machinery departments.

The specialists also pointed out the phenomenon of the serious waste in manpower and material resources in the existing enterprises. They felt that we must adopt measures to practically and realistically change this

situation. Li Chushi [2621 0328 0013], deputy head of the Guangzhou Concrete Boat Factory, proposed that we had to use economic measures to check wastes. The present piecemeal wages are calculated only from the hours of work and output, and do not include the consumption of raw materials in producing the product. This is not favorable to practicing economy. We must reform the present method, and include the consumption of raw materials in the criteria for calculating wages. He also pointed out that another prominent problem that constitutes waste at present is the lack of fixed quota for a fixed number of staff members. This is unfavorable to raising labor productivity. He proposed that the enterprise must strictly pick the outstanding workers according to fixed quota for a fixed number of staff members and put them in production posts. The surplus labor force can be used elsewhere for the labor needed by society. We would rather temporarily issue wages (without bonuses) to those people who are not yet assigned to production posts than allow the existence of the phenomenon of enforced idleness due to poor organization. This not only is unfavorable to production but is also unfavorable to the building of a spiritual civilization amidst the worker's rank. Lin Qing [2651 3237], deputy manager and senior engineer of the municipal sewing machine company, also proposed that we must propagate loudly and clearly our original slogan of "rigorously increasing production and practicing economy," create public opinion and practically and realistically overcome the phenomenon of waste.

9335

CSO: 4006/742

FINANCE AND BANKING

NEED TO ENSURE CONSTRUCTION OF KEY PROJECTS STRESSED

Beijing GUANGMING RIBAO in Chinese 17 Jul 83 p 3

[Article by Wu Xingguo [0702 5281 0948] and Liang Jinliang [2733 6930 0081]: "Strengthen the Concept of the Overall Situation to Ensure the Construction of Key Projects"]

[Text] The government work report of the First Conference of the Sixth NPC emphasized: "The success or failure of the key construction projects has a vital bearing on the future of China's modernization and on the fundamental interests of the people throughout the country. The whole country should support the key construction projects and the entire body of the working class and the people of the various nationalities must render contributions to promoting the key construction projects." We must fully understand the importance of ensuring the key construction projects and practically and realistically ensure the smooth progress of the key construction projects. This is a common task for the people throughout the country and is a strategic requirements for our country's economic development.

Important Principle for Capital Construction Is To "Make An Overall Arrangement, Ensure Key Projects and Take Care of General Projects"

In order to realize the great goal of quadrupling the total value of industrial and agricultural output by the end of this century, the capital construction front is faced with extremely arduous tasks. In the period of the Sixth 5-Year Plan alone, there are 890 large- and medium-scale construction projects to be launched. Yet, the financial and material resources which the state can come up with within a definite period of time are limited. This poses an extremely sharp contradiction. In order to solve this contradiction, we must take into account the possibility of the state's financial and material resources, and make overall arrangements to put the construction projects that must be launched in proper order. The principle of this order should be: "Make an overall arrangement, ensure the key construction projects and take care of the general projects." In this way, we can enable capital construction to correspond to the needs and objective reality of the development of the national economy.

Making an overall arrangement is a criterion for the development of the national economy in a planned and proportionate manner. The vertical relations and horizontal relations of capital construction are extremely complex, involving the various departments of the national economy and the various links of social reproduction, and involving both immediate interests and long-term needs. To launch capital construction smoothly and step by step, during each stage the state must take into consideration the needs of the development of the national economy and the country's strength and rationally distribute manpower and material and financial resources in order to ensure the all-round fulfillment of the state plans. If we ignore the unified planning and unified arrangement of the state, lay everything out in an all-round manner, launch everything at the same time and blindly stretch out the front, we will inevitably disperse our strength in construction, slow down the speed of construction and obstruct overall planning. Not only will the results be unfavorable to construction throughout the country, but they will also be unfavorable to construction in the various localities, departments and enterprises.

In making overall arrangements, we must differentiate key projects from general projects and ensure key construction projects. In ensuring key projects, we must first of all ensure key projects throughout the country and ensure those construction projects that are most urgently needed in the national economy and have decisive significance for economic development during each stage. In ensuring the key projects, we must do a good job of putting projects in order of their importance and urgency, of what is primary and what is secondary, and of what to accept and what to reject. Only in this way can we concentrate our limited financial and material resources and satisfy the needs of key construction projects.

The historical experience of economic construction for more than 30 years since the nation's founding has proved that whenever we have concentrated our strength and ensured key construction projects, the speed of construction has been fast and the results of investment high. Otherwise, the pace of construction would be slow and the development of the entire national economy would be obstructed. In launching modern economic construction, we should draw our lessons from our historical experience in order to practically and realistically ensure the smooth progress of key construction projects on the basis of making overall arrangements.

Laying stress on ensuring key construction projects does not mean that we do not want general construction projects. Rather, we mean that we must use the financial and material resources which the state can provide in the main direction of attack. We must first of all make arrangements for key construction projects. Then, if we have surplus resources, we can make arrangements for some projects to fill up the gaps as well as general construction projects. Under the prerequisite of ensuring the fulfillment of key construction projects, we must pay attention to an overall balance, work hard to eliminate the weak links in every aspect and take care of the needs of general construction projects.

Ensuring Key Construction Projects Is Important Measure in Realizing New Economic Revival

To realize a new economic revival, we must have a rational economic structure. After having implemented the "eight character" policy over the last few years, we have greatly improved the situation of a serious proportional disharmony in the national economy. But the shortage of energy resources and tension in communications and transport are far from taking a basic turn for the better. It is estimated that the country suffers from a shortage of electricity of about 10 million kWh each year, affecting more than 20 percent of the value of industrial output. Many places often apply their brakes to restrict electricity consumption. The newly built factories and mines are unable to enter production because there is no electricity supply. Because of inadequate transportation capacity, the coal that is produced cannot be transported. Last year, just the coal mines of Shanxi Province alone stockpiled more than 10 million tons of coal. The inadequate harbor handling capacity also put a great deal of restrictions on imports and exports in foreign trade. The tension in energy resources and communications have seriously affected the further development of the national economy. If we concentrate our strength and promote the key construction projects in energy resources and communications, we can, on the one hand, promote the production of the existing enterprises and increase the national income, and, on the other hand, accelerate the pace of the readjustment of the national economy and establish a solid foundation for the future proportionate development of the national economy.

Realizing a new economic revival, it is still necessary to greatly raise the technological standard of the national economy. After some 30 years since the nation's founding, we have initially established an independent and relatively complete industrial system and system of national economy which embody the preliminary foundation for modernization. Nevertheless, the facilities of many enterprises are still old. The technologies are backward, efficiency is low and consumption is high, and there are relatively few backbone enterprises that truly play a decisive role in the lifeline of the national economy. This shows that the existing material and technological foundation in our country is still far from meeting the needs of the "four modernizations." For this reason, while strengthening the technological transformation of the old enterprises, we must also construct a group of backbone modern projects before we can realize the great goal of the four modernizations.

In the last 2 years, the key construction projects in the sphere of construction were put in a passive state of being crowded out. The goods and materials handled by the localities and enterprises themselves were not used in the state's urgently needed engineering projects. Instead, they were used in processing industry of a general nature and in the small factories with backward technology and poor economic results. Just last year alone, the localities launched a total of 34,000 new small projects, the largest number since the nation's founding. This dispersed the limited financial and material resources, and brought about an unfavorable influence

on key construction projects. Some localities and enterprises even randomly retained the goods and materials under the state's unified distribution and expanded their own scope of sales. As a result, because of a shortage of materials supply, many key engineering projects had to stop operation to await more materials. Some localities and enterprises even raised the prices of construction materials, such as steel, cement and timber, on their own, thereby bringing about a state of continuous rising costs in capital construction projects. To change such an unfavorable condition, we must adopt urgent and effective measures to concentrate our financial and materials resources in order to practically and realistically satisfy the needs of key construction projects. Every district and department should proceed from the interests of the state as a whole and go all-out in supporting the state's key construction projects in order to realize the new economic revival in the nineties.

Important Path in Raising National Economic Results Is To Ensure Key Construction Projects

Without a doubt, key construction projects and general construction projects both embrace a direct role in raising national economic results. However, to a certain extent, the role played by the state's key construction projects in raising the national economic results is greater than that of general construction projects. For instance, in the 280,000 industrial enterprises throughout the country at present, the 1,000 backbone enterprises constitute over 50 percent of the gross financial revenue. In particular, the key industrial construction projects embrace the characteristics of advanced technology, relatively high labor productivity and relatively low costs. They control to a very great extent the development of the national economy and influence industrial planning throughout the country. They can develop new industrial departments and improve the entire economic structure. After they enter production, they can greatly increase the total products of society and increase the national income by a wide margin. Thus, in terms of the overall situation or a partial situation, and in terms of a long-range situation or an immediate situation, to raise national economic results and speed up economic development, we must attach great importance to key construction projects and give play to the role of key enterprises.

Ensuring key construction projects is synonymous with strengthening the technological transformation of existing enterprises and realizing intensive expanded reproduction. After they are completed and have entered production, the key construction projects can further bring about the raising of the technological level of the entire national economy and can provide a greater number of more advanced new equipment, new technology, new materials and new energy resources for the technological transformation of existing enterprises. In this sense, ensuring key construction projects plays a major role in raising both the economic results of the investment in fixed assets and national economic results.

To render even greater contributions to raising national economic results, key construction projects themselves must strive even harder for the results of investment. The key construction projects involve large investments and use without repayment more financial and material resources and technological strength. Their engineering stages are long. Thus, the results of their investment have an extremely great influence on the entire situation. This requires that we carry out designing with care, launch engineering work with care, carry out careful calculation and strict budgeting, and implement various systems of examination and supervision strictly in the course of construction, and speed up construction under the prerequisite of guaranteeing engineering quality. Only in this way can we raise the results of investment in key construction projects and thus raise the results of the entire national economy.

9335

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FINANCE AND BANKING

REFORM OF FINANCIAL, ACCOUNTING WORK DISCUSSED

Beijing CAIWU YU KUALI [FINANCE AND ACCOUNTING] in Chinese No 7, 20 Jul 83 pp 2-4

[Article by Liu Songjiu [0491 2646 0036]: "The Content of the Reform of Financial and Accounting Work and the Problems Which We Should Pay Attention to"]

[Text] In his government work report at the First Conference of the Sixth NPC, premier Zhao Ziyang proposed that, in order to meet the demand of the development in economic construction, we must accelerate reform of the organization of the economic system. This is an important task for the whole party and the people throughout the country at present. Guided by the correct principle of the party Central Committee, the reform of the various trades and undertakings throughout the country is being launched step by step in the presence of leadership. On the financial and accounting front, the broad masses of financial and accounting workers have implemented the principle of the central authorities and actively carried out probing, experiment and reform, and some have attained heartening results.

The reform in financial and accounting work involves a broad scope of problems. In light of the practice in financial and accounting work in the construction materials industrial system, I would like to discuss a few problems which we should pay attention to in the content of reform and the methods of and steps in carrying out reform.

I.

To do a good job of the reform in financial and accounting work, we must change our way of thinking. That is to say, we must change from emphasizing the attention by the leadership in the past to considering bringing our own functions and roles into full play and taking the initiative to coordinate with other departments and becoming good counselors to the leadership. We must change from the past's one-sided emphasis on practicing economy and being stingy about expenditure, to increasing income and decreasing expenditure at the same time, opening up the sources of production and establishing the guiding thinking of the means of the "three riches." We must change from the past's one-sided emphasis on supervision, to integrating supervision with service. We must change from the simple

accounting concept of the past to an all-round management concept; in other words, doing a good job of reflection and supervision afterward as well as emphasizing the work of forecasting, controlling and taking part in decisionmaking beforehand. To carry out properly the reform in financial and accounting work, we must also readjust the structure of organization. That is to say, we must readjust the organization of the division of labor in the present accounting mode into the organization of the division of labor in the management mode so as to conveniently give play to the role of forecast, control and management. Those enterprises that do not yet have a chief accountant must have a chief accountant and set up a system of responsibility for the chief accountant. We must persist in setting up an independent financial and accounting organ. All this in actuality constitutes the content of reform in financial and accounting work. I will emphasize the discussion of the following few items:

A. The reform in the system of accounting. Responsibility takes first place in the economic system of responsibility that embodies the characteristic of the integration of responsibility, right and benefit. The reform of the accounting system must meet the needs of the economic system of responsibility. In the organization of accounting, we must take the units of economic responsibility as the targets of accounting, and carry out separate accounting at various levels and of individual accounts. Then we can extend the accounting work to the departments, workshops, work teams and work posts in accordance with quota analysis and extension of jurisdiction to the grassroots level. We must properly handle interlocking coordination vertically and horizontally and properly integrate professional accounting with mass accounting. These are new topics that await urgent study and resolution at present. The responsibility in cost implemented by the Xiangxiang Cement Factory has enabled all the management units to assume economic responsibility in controlling costs. Then, on the basis of a close integration of responsibility, right and benefit, these units have utilized the economic levers, created equal terms, launched competitions in costs and enhanced the continuous lowering of costs. Theirs is a relatively successful experience. They have also sent their reserve funds to the goods and materials departments at the grassroots level to be managed by these departments separately, established an accounting system of general and separate accounting between the financial department and the materials department, respectively, enabled the materials department to integrate "money and materials" and the financial and accounting departments to strengthen supervision, and have scored obvious results in doing so. In 1982, they lowered the cost of procurement alone by 1 million yuan and saved 20,000 yuan in management fees. In terms of accounting quota, in order to more directly reflect the results of the economic activities within the enterprises under assessment, some enterprises have, under the prerequisite of ensuring the implementation of the state's unified system of accounting, formulated some clear, meticulous, unitary and small targets in order to satisfy the needs of internal accounting, and have paid attention to integrating that with the various economic and technological targets. Some enterprises have also scored fine results in the comprehensive utilization of accounting, statistical accounting and business accounting. All this can be used as reference in the reform. In terms of the method of

accounting and the procedure of accounting, some enterprises have adopted the classified methods of changing costs and fixed costs and controllable costs and noncontrollable costs that make cost accounting and cost analysis more suited to the needs of management. As a result of the implementation of the system of responsibility, accounting work is forced to change from the simple settling of accounts afterward, to a procedure that combines accounting before hand with accounting afterward, which is convenient for giving play to the management functions of forecasting and control.

B. Speeding up the feedback of news. The economic activities of the enterprises are intricate and fast-changing. The economic news that serves as a feedback must tail behind these activities accurately and without delay. At present, in reflecting the economic news, accounting does not do as well as statistics in terms of sensitivity and timing. Although this is restricted by such characteristics as the systematic, continuous and complete nature of accounting, yet we must not be satisfied with our present situation. Only by mastering the trend of movement without delay can we make policy decisions accurately and carry out command and management flexibly. Thus, raising the timely character of accounting and speeding up the circulation of economic news have become the important contents in the reform in financial and accounting work at present. In light of the experience of some enterprises, the approach to speeding up the circulation of news is first of all to clarify the responsibility of transmission, set up a schedule and integrate it with individual awards and penalties, and properly open up the news channel. The next step is to change some of the habitual ways of handling news. For instance, figures that can be selected and sampled individually or reflected in separate sections do not have to wait to be reported in the final comprehensive reports. For instance, the financial department of the Dalian Glass Factory reports to the head of the factory at the start of every workday the cumulative figures of the income from sales of the previous day. The Kunming Cement Factory has set up a system of daily production and business reports that include the trend of production as well as some financial figures. This has played a great role in enabling the leadership to have a handle on the situation without delay.

In the news feedback, the course of promoting the economic system of responsibility is a course of building a network of figures. In this course, the systematization, regularization and standardization of figures are the most important links. Only by concentrating our efforts truly in such aspects as measurement method and first-hand recording and establishing a sound foundation for a network of figures can we create the conditions for speeding up news circulation.

C. The reform of financial management. The state has already decided on the method of implementing the substitution of tax payment for profit delivery by the state-run enterprises. The enterprise's financial reform must also meet the needs of the substitution of tax payment for profit delivery. At present, under the unified arrangement of the financial and taxation departments in various localities, the construction materials enterprises are carrying out tax and profit forecasts, studying the modes

of distribution and analyzing the structure of profits. In this work, we must persevere in the principle of the state having the largest share, the enterprise having the next largest share and the individual having the smallest share.

With the promotion of the economic system of responsibility, there is a problem of how to rely on the masses to handle financial matters democratically, and there is also a question of how to correctly handle the relationship between unified management and separate management. The so-called democratic management of financial affairs and the separate management by the various units at the grassroots level primarily refer to the quota analysis, accounting responsibility and authority in bonus allocation. They do not mean dividing the money among all the departments and the individuals. As for the relationship between unified and separate management, we must centralize what must be unified, and must boldly allow the grassroots level to carry out separate management. Only in this way can we control and manage the large ones and give freedom to the small ones and mobilize the enthusiasm of the various aspects. In practical work, in addition to carrying out analysis and contracting of the three major targets of interests, costs and capital toward the various funds for special use, some enterprises have also adopted such methods as contracting quota, contracting management, contracting accounting, contracting tasks and contracting results under the prerequisite of unified planning and strengthening supervision and in accordance with the principle of the division of functions and the integration of responsibility, right and benefit. Practice has proved that this method is effective in properly managing the funds for special use.

The work of reforming cost management primarily involves changing the situation of too much accounting, too little management, too much accounting afterward and too little forecast beforehand, and involves putting the emphasis on cost control. In light of the demand to raise economic results, the essence of cost control lies in raising the efficiency and results of cost and expenditure. Strengthening cost control means lowering cost on the basis of mobilizing the enthusiasm of the masses. It means including the relationship among responsibility, right and benefit of the unit of cost into the orbit of the economic system of responsibility. Proceeding from the stipulation of an advanced quota, effect cost control through the entire course of cost management. To have a handle on the direction of attack in lowering cost, we must emphasize the cost items that are proportionally larger. At the same time, we must also pay attention to coordinating closely with the economic accounting inside the factory and must not engage in a system of our own.

II.

In terms of the methods and steps in the reform in financial and accounting work, a few issues merit our attention: The first is the relationship between reform and rectification. The second is the relationship between summing up our own experience and drawing inferences from foreign countries. The third is the issue of how to advance in the proper order.

A. Use the spirit of reform to guide rectification. After 10 years of turmoil, the original foundation in financial and accounting work has been undermined considerably. In spite of the fact that we have carried out the necessary purification in the last few years, and that we have made definite recovery and improvement in this work, the phenomenon of confusion has not yet been thoroughly reversed. Thus, in enterprise rectification, we must list the rectification of financial and accounting work as a major content. In rectifying financial and accounting work, we must restore some normal accounting procedures, effective rules and regulations and management principles which we should abide by. But the rectification should not only remain in the stage of recovery, but must develop toward the stage of construction. We must get rid of the old and set up the new. That is to say, we must carry out reform. Reform and rectification are different and yet they are related to each other. In many respects, they must be launched in a crisscross manner and cannot be separated completely. Regarding this matter, some people feel that the two should be of equal importance and we should not say which is primary and which is secondary. Other people feel that we should carry out rectification first and reform next. All this involves the issue of how to correctly handle the relationship between reform and rectification. In light of the experiences in rectifying the financial and accounting work of Jiangsu Province, Beijing Municipal Construction Materials Bureau and the Gongyuan Cement Factory, we feel that we cannot mechanically separate the two, nor can we lump them together. We must have a foothold in rectification and have our eyes on reform and use the spirit of reform to carry out rectification. We must definitely not replace reform with rectification.

B. In the reform, we must emphasize summing up our own experience and draw references from abroad in light of our reality. The goal of the reform in financial and accounting work is to probe and create a system of socialist financial and accounting theories and methods that embody Chinese characteristics. Thus, we must focus on summing up our own experiences. For more than 30 years, we have accumulated many fine experiences which are not inferior to what the West has, such as team accounting and quota analysis. All these experiences were scored through many twists and turns and were difficult to come by. In this reform, we must sum up our own experiences, then raise them to the high theoretical plane, compile them, gradually perfect them and formulate our unique model. Of course, when we conscientiously sum up our own experiences and create our old model, we do not exclude but must absorb the advanced and useful experiences from abroad. In the last few years, we have imported some accounting models from the Western countries which have won people's attention. In spite of the fact that our social system is different from the Western countries, their advanced technological methods can still be used by us. However, in learning foreign things, we must embrace a correct attitude. This means that we must persevere in the guiding thinking of "making foreign things serve China" and must not copy everything to the letter. For instance, in learning "management accounting," in the previous stage, some people advocated transplantation of the original copy. We should pay attention to this.

C. In carrying out reform, we must first set up pilot projects before we popularize the work. We must fully realize that the reform in financial and accounting work is more complex than the reform in other aspects. This is because the figures which finance and accounting provide embody the following characteristics: they are systematic, continuous, well-organized and complete. Therefore, we must carry out this reform in an orderly manner, in the presence of leadership and in a step-by-step manner. We must definitely not rush headlong into mass action and act in an oversimplified manner without trials. In handling the relationship between getting rid of the old and creating the new, as the experiences of some enterprises show, we can first create something new, test it, and, after it is proved to be feasible, get rid of the old to make way for the new. Setting up pilot projects first and popularizing them next has been the method advocated by our party all along. Some people feel that the method of setting up pilot projects first will bring about the coexistence of the old with the new and redundancy in work. But this is far better than the tossing and turning in carrying out reform blindly before knowing precisely what one is doing and making corrections after mistakes are made, which not only wastes time but also dampens the enthusiasm in reform. All of us can still have fresh memories of our lessons in this respect. Another level of implication of setting up pilot projects first is that there is a question of the procedure for approval toward some of the contents of reform. Before an overall reform, we must not make changes on our own under the unified system stipulated by the state. Of course, this definitely is not saying that in the reform in financial and accounting work the lower levels only wait for the higher level to make a move. In reality, there is a large volume of work to be done in the reform in financial and accounting work inside enterprise units. As long as we implement the method of carrying out reform in an all-round and systematic manner, in a resolute and orderly manner and in the presence of leadership step by step, and as long as we adopt the correct method of setting up pilot projects first and popularizing them next, we will definitely be able to score new achievements in the reform in financial and accounting work.

In the report at the First Conference of the Sixth NPC, Premier Zhao Ziyang pointed out: "Every step and measure in the reform must be favorable to fulfilling the various tasks stipulated in the state plan; to developing the national economy in a harmonious manner, to attaining relatively high social and economic results in the various economic activities, and to taking into consideration the interests of the state, the enterprise and the individual and ensuring the rational growth in the state's financial revenue year after year." We must resolutely implement this spirit. In the reform in financial and accounting work, we must, from beginning to end, evolve around the focus of raising economic results, and take raising economic results as a criterion for weighing the feasibility of the various items of reform, take raising economic results as the starting point and finish line for reform, and open up a new situation for the reform in financial and accounting work.

9335
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FINANCE AND BANKING

NEED FOR LOCALITIES TO SUPPORT NATIONAL PROJECTS STRESSED

Beijing GUANGMING RIBAO in Chinese 14 Aug 83 p 3

[Article by Zuo Chuntai [1563 2505 0669]: "People Throughout the Country Must Strengthen Their Overall Concept to Support Key Projects"]

[Text] Highlights: Ensuring the success of national key projects is an important issue concerning the outcome of the modernization drive and the basic interests of all people. People throughout the country should first consider the overall situation, concentrate the necessary financial and material resources to support the key projects, and ensure that they are completed on schedule. All localities, departments, enterprises and units should take some money out of their pockets to strengthen the central treasury. Strengthening the overall concept does not mean neglecting the local or the general situation. Our principle is to unite in a dialectical way overall interests with local interests and immediate interests with long-range interests.

At present, people of all nationalities in the country are resolutely implementing with actual deeds the spirit of the First Session of the Sixth NPC. People on all fronts are having many arduous and meticulous tasks to perform. One of the common and important actual deeds is to take the whole country into account, to strengthen the overall concept and to make an all-out effort to support the key projects.

Why do we have to stress the importance of taking the whole country into account and strengthening the overall concept? The reason is that the part is subordinate to the whole, and we must understand the overall task and overall interests before we can more effectively use the local labor, material and financial resources to serve local interests as well as to contribute to the overall situation.

In his political report at the 12th CPC Congress, Comrade Hu Yaobang set the grand objective of quadrupling the gross value of agricultural and industrial output in 20 years from 1981 to the end of the century. People throughout the country must strive to attain this goal. However, quadrupling the gross value

must first be predicated on the constant improvement of economic results and does not mean a one-sided quest for output and output value. Second, this term should apply to the whole country. For each locality, department or enterprise, the increase may be a little more or a little less. We must proceed from realities, stress economic results, and submit to the nationwide comprehensive balance. Third, we have to take two separate steps in these 20 years. In the first decade, our main task is to lay the foundation. The speed should not be too high, and we should watch out at every step. In other words, the "quadrupling" must be achieved in an orderly way, and must not cause any confusion. Such an achievement will be impossible if each of us fights his own battle instead of taking the whole country into account and forming an overall concept.

In his report on the work of the government at the First Session of the Sixth NPC, Comrade Zhao Ziyang stated that in economic construction during the next 5 years, we must first ensure the coordinated development of agriculture, light industry and heavy industry. How can this coordinated development be accomplished? In simple and popular language, it means producing more of what is in short supply and less of what is in excessive supply. For example, if we want to improve the situation of energy and transportation, we must stop blind and duplicate construction; prevent the small from competing with the large, the new from competing with the old, and the backward from competing with the advanced; close, suspend, merge or retool those enterprises which have been operating at high costs, producing goods of inferior quality and incurring prolonged losses; readjust the internal proportionate relationship within agriculture, light industry and heavy industry; and so forth. In short, we should enable the national economy to develop in a planned, proportionate and coordinated way. Such an achievement is impossible without taking the whole country into account or forming the overall concept.

To correct the past mistakes of excessive centralization and to solve the many problems long accumulated in the past, the state has in the past several years spent more money to improve the people's standard of living and to increase the enterprises' own funds. This action was necessary. However, because of our overcommitment in certain measures and the lack of strict financial control, with the result that some localities, departments and units have started their own capital construction projects, raised their prices, spent their own funds and paid their bonuses indiscriminately in addition to tax evasions, our funds became overdecentralized. The proportion of the central government's revenues to the national income dropped from 37.2 percent in 1978 to 25.5 percent in 1982. At the same time, extra-budgetary funds were increased by a wide margin--from 37 billion yuan in 1978 to 65 billion yuan in 1982, a 75.7 percent increase in 4 years. In addition, the states' subsidy for the prices of agricultural products and other prices amounted to 32 billion yuan, 32 percent of the state's budgeted income. This outlay is beyond the state's financial resources. The serious decentralization of funds made it difficult to control the scale of capital construction and the increase in consumption funds, and many tasks were carried out in a haphazard and unplanned way. Furthermore, the financial resources of the state, especially those of the central government, have to be used on cultural and educational undertakings, public health, scientific research, administration expenditures, national

defense, preparation against war, and other routine expenditures, after which, not much is left for any major undertaking. Thus such tasks as exploitation of energy, development of communications and transportation, intellectual investment and so forth cannot be accomplished. If this situation should continue, not only will our hopes for a vigorous economic development in the 1990's be shattered; even the normal economic order and proportionate relationship restored with great efforts will be disrupted once again. To change this situation, it is necessary for the localities, departments, enterprises and units to take some money out of their pockets to strengthen the state's finances, especially the central government's finances. It is also necessary that everyone should take an overall and long-range view of problems so that the part will be subordinate to the whole and the immediately will be subordinate to the long-range goals. Obviously, this is impossible without taking the whole country into account and forming an overall concept.

All this shows that it is entirely necessary for the state to stress the need to proceed from the overall situation and to concentrate the necessary financial and material resources to ensure the completion of the state's key projects. This is an important issue concerning the outcome of the modernization drive and the fundamental interests of all people in the country.

What are the key projects? We must pay attention to the focal point in any kind of work, and grasp the principal contradiction; otherwise, we will be "lost in a fog and unable to get to the heart of a problem or find a way to resolve the contradictions" ("Selected Work of Mao Zedong" Vol 1, p 310). For economic construction, we have only limited financial and material resources. If we pay no attention to priority, then everyone will go into action at once regardless of the importance and urgency of certain projects with the result that people will compete with one another and incur big losses in working for small gains. They will find themselves in a passive position everywhere. The key projects must be well carried out before there can be any spur to the development of the entire national economy. As we can see from the present situation in our country, priority should be given to energy and transportation, to the technical transformation of a number of key enterprises, and to the development of science and education. Priority can only be decided by the central authorities in the light of the overall situation and long-range needs and subject to overall balancing. No locality or department whatsoever can make this decision at will. After the determination of priority items, people throughout the country should be mobilized and the financial and material resources should be concentrated in a concerted effort to support the key projects and to ensure their on-time completion; otherwise the speed in production and the improvement of people's livelihood, though making a little headway, cannot be sustained.

Does stressing the need to strengthen the overall concept and to be concerned with the whole mean that the parts can be neglected? The answer is "No," since the whole cannot exist independently without the parts of which it is formed. In fact, being concerned with the whole and protecting the key projects mean being concerned with and protecting those parts which have a decisive bearing on the whole. For example, energy, transportation, science and education, viewed in the context of the entire national economy, are parts. However, since

they are now important parts and links with a decisive bearing on the whole, they are, therefore, the key components of the whole. For example again, of the 890 large and medium projects to be started or continued according to the Sixth 5-Year Plan, 913 are important ones already started and calling for investments of more than 500 million yuan, and another batch of important projects will be started during the Seventh 5-Year Plan. The investments in these projects mainly came from the authorities, and they are national key projects. However, where do these projects take place? Neither in the air, nor in a foreign country, but on the soil of the People's Republic of China, and in the 29 provinces, municipalities and autonomous regions. This year, 70 key projects will be undertaken in the country. Eight of them are in Beijing and another three extend beyond the Beijing area. After completion, these projects will play an important role in turning Beijing into a modern political and cultural center. Similarly, the projects in other provinces, municipalities and autonomous regions will also promote local development. In this sense, the localities, departments, enterprises and units supporting national key projects are in fact arming themselves. Our principle is to unite overall interests with local interests and immediate interests with long-range interests in a dialectical way. The facts are simply like this.

If we stress the need to take the whole country into account and to ensure the success of key projects, does it mean that we need not be concerned with the ordinary projects? The answer is again negative. Just as bones need flesh, key projects also need supportive ordinary projects. If, for example, a large coal mine is to be built in Shanxi or a large enterprise is to be set up in Shanghai, the related transportation facilities, power supply, water and sewage systems, workers dormitories, commercial and service outlets, posts and telecommunications stations, kindergartens and primary and secondary schools are indispensable. It will be impossible for the key projects to play their full role if they do not have these supportive projects. In this sense, if the localities use their own standby financial resources on the supportive projects for the national key projects, they are also supporting the key projects. We have had sad experiences in separating the bones from the flesh. Now we must unite the bones with the flesh and the key projects with the ordinary projects in a dialectical way.

Some people may have the worry that being concerned with the whole and protecting the key projects may stifle the already vitalized economy. This worry is unnecessary. The concentration of funds is certainly based on the existing system, and not carried out in the mistaken way of "concentrating all guns in the hand of the Red Army." For example, there are now 65 billion yuan of extra-budgetary funds, and if the state will concentrate 6.5 billion yuan, some major undertaking can be accomplished. The amount of 6.5 billion yuan is only 10 percent of the extra-budgetary funds. A 10 percent tax was considered to be light in the old days. On the contrary, without the concentration of funds, it will be impossible to make any headway in energy and transportation, and our enterprises will be without fuel and power, just like people without food. These enterprises will not be able to bring in what they need or to send out what they produce. They will be like people whose blood cannot circulate. If this situation should drag on, our economy would certainly come to a dead end. If we can improve our energy and transportation situation, a number of key

enterprises will take on a new appearance through technical transformation, and the level of science and education in the entire nation will be raised. Our economy will then be like a tiger with wings soaring in the sky during the 1990's.

Some people feel that the excellent situation in the countryside in the past several years has not come easy, and that if the whole country continues to support agriculture, then agriculture will not be required to support the key projects. This sounds reasonable, but not entirely reasonable. It is true that agriculture is also a strategic priority for the next two decades, and that all trades and undertakings should continue to support it strongly. On the other hand, the comrades engaged in rural work and all peasants in the countryside should also think for a while how the present excellent situation in the countryside has come into being. Let us not talk about what happened in the distant past, such as the land reform, the agricultural cooperatives, the large-scale farmland water conservancy facilities, agricultural mechanization, and the development of the chemical fertilizer and pesticide industries, and look at what has happened since the 3d Plenary Session of the 11th CPC Central Committee. If the state did not import 10 million tons of grain each year in order to lower the base quota of grain procurement; and if the state did not raise the procurement prices of agricultural and sideline products by a wide margin and grant price subsidies, could there be so much surplus grain for the development of economic diversification in the countryside? And could the income be increased so rapidly in the countryside? In old China, agriculture was carried out with the households as basic units, and even middle peasants, not to mention poor peasants, could not work their way to great wealth, far less to become 10,000-yuan households. On the whole, it is true, the standards of living of our workers and peasants are fairly low, economic diversification still needs to develop in the countryside, and there should be a continued increase in the peasants' income. However, in developing economic diversification, such as in processing agricultural and sideline products, coal and electricity are needed in the countryside. If production has been increased, the products have to be brought out and transportation has to be developed. If agricultural production has to be further increased, more suitable farm machines, chemical fertilizers and pesticides have to be produced and the irrigation facilities have to be improved, and so forth. If there is not contribution to the whole country from the countryside, how will the state give further support to agriculture? We must compare Old China with New China and point to the state's support for agriculture after the 3d Plenary Session of the 11th CPC Central Committee to convince the peasants that, proceeding from overall and long-range interests, support for national key projects as much as possible is also beneficial to agriculture itself as well as to the peasants themselves. These remarks do not apply to agriculture alone; all trades and undertakings must first think of the support given them by the whole country and by the other trades and undertakings, and thus become more aware of the need to support the key projects.

If the whole country supports key projects, what will become of the construction units for these projects? The funds for key projects are collected from the whole country in very small amounts and represent the people's blood and sweat. They have by no means come easy. These construction units must take

good care in designing, construction, budgeting and calculating, and must practice strict economy. In the past, some projects were described as "RMB notes trampled underfoot upon our arrival at the worksite." Such waste must not be repeated. Since the whole country supports key projects, these projects must in turn support the whole country by offering good quality, low construction cost, and on-time, or early completion. This is also an important aspect which cannot be overlooked in strengthening the overall concept and ensuring the success of key projects.

9411

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FINANCE AND BANKING

BRIEFS

GUANGDONG TAX-EVASION CHECK-UP--Since the beginning of this year, tax departments in all localities throughout the province have discovered that many state-run and collective enterprises, as well as individual industrial and commercial entrepreneurs, are evading taxes. After publicizing the tax policies, laws and decrees, and carrying out ideological education, many enterprises and individual entrepreneurs have returned by the end of September over 58 million yuan in tax money, according to incomplete figures. In an income tax check-up, which was carried out in the first half of this year, the province has checked 23,060 collective units, and discovered that 14,297 were evading taxes, accounting for 62 percent of the total checked. The tax money being checked and recovered amounted to 38.59 million yuan. Many localities have checked the tax delivery situation in state-run enterprises since July. Between July and September, tax bureaus of 14 cities and counties have preliminarily checked and recovered the evaded tax money which amounted to 20.3 million yuan. The situation is still worse in individual industrial and commercial units. According to spot checks of tax departments in key sectors, the actual amount of tax delivery of individual units accounts for only about 30 percent of the due amount. [Summary] [Guangdong Guangzhou Provincial Service in Mandarin 20 Oct 83 HK]

LIAONING TAX EVASION--Tax evasion checkup work is being vigorously carried out across Liaoning Province. As of 15 October, some 21,900 tax-paying enterprises in the urban and rural areas had been checked, and some 18.37 million yuan of evaded taxes had been discovered. In September 1983, Shenyang City discovered 1,900 enterprises guilty of tax evasion totaling 3.8 million yuan. Anshan City checked 1,400 tax-paying enterprises in September and discovered tax evasion totaling 1.02 million yuan. [Excerpts] [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 21 Oct 83 SK]

SHANDONG LOAN WITHDRAWAL--The banking departments in rural areas throughout Shandong Province scored marked achievements in withdrawing loans on credit. During the 40-day period from early September to early October, the province has withdrawn 508.71 million yuan of various agricultural overdue loans and has received 390.72 million yuan in rural people's deposits, totaling 899.43 million yuan of currency withdrawn from circulation, a more than 100 percent increase over the figure of the corresponding 1982 period. [Excerpt] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 20 Oct 83 SK]

MINERAL RESOURCES

BRIEFS

HEILONGJIANG GOLD OUTPUT--By 19 October, Heilongjiang Province had produced 59,612 liang of gold, an increase of 40 percent over the same 1982 period, prefulfilling the state production plan by 30 days. [Excerpt] [Harbin Heilongjiang Provincial Service in Mandarin 1100 GMT 21 Oct 83 SK]

XIZANG MINERAL RESOURCES--Ihasa, 24 Oct (XINHUA)--More than 60 minerals, accounting for 40 percent of China's verified mineral resources, have been discovered in Tibet, according to the autonomous regional bureau of geology and mineral resources. Geological prospecting has so far verified reserves of 26 minerals in Tibet. The region is believed to contain one of the world's largest deposits of lithium and the largest reserves of chromite in China. Large deposits of porphyry copper have also been discovered, together with molybdenum, tungsten, gold, silver and iron. Tibet's potential reserve of copper is estimated to rank second in the country. The prospecting has also shown that plateau and lake areas in northwest Tibet are rich in boron resources. The 2,000-kilometer Yarlung Zango River, the highest in the world, holds hydroelectric power resources of 100 million kilowatts, ranking second in China. [Text] [OW240939 Beijing XINHUA in English 0812 GMT 24 Oct 83 OW]

CSO: 4020/19

INDUSTRY

CONSTRUCTION, SITING OF HEILONGJIANG BEET SUGAR MILLS DISCUSSED

Harbin HEILONGJIANG RIBAO in Chinese 3 Aug 83 p 3

[Article by Rui Xing [3843 5281]: "Briefly Discuss the Construction Scale and Siting of Our Province's Beet Sugar Mills"]

[Text] Since the founding of the People's Republic, our province has invested roughly more than 600 million yuan and constructed 100 to 200 sugar mills. Currently, only 25 of these mills remain in operation. Of the existing mills, because of differences in size and siting, their economic results differ drastically. Some have a surplus profit of nearly 10 million yuan each year. Others operate at such a loss that they almost cannot continue. Some comrades believe that scale and siting are not important factors affecting the economic results of sugar mills. They say that at the initial period of the founding of the People's Republic our province had two 350-ton-per-day sugar mills (refers to sugar beet processing capacity, same below) and the economic results were very high. Among the medium-sized mills at present, some do not operate at a loss either. Prior to the founding of the People's Republic, our province had two sugar mills. Both were located in the southern low sugar [content] region and the fact that their economic results were also very high is a proof. Moreover, with smaller mills and one in a county, it is easy to manage. The county takes the initiative and the county can arrange for youths who are waiting for assignment to work and it can provide the accumulation [of funds]. I believe that the above-mentioned viewpoint lacks scientific basis. First, we cannot mix operating without a loss or with small surplus profit with high economic results. These are two different concepts. The comparative prices of raw materials and products today are different from what they were 30 years ago. At that time, a mill could sell 1 ton of sugar and buy back 35.5 tons of sugar beets. Today, it can only buy back 10.9 tons of sugar beets. Thus, the small-scale operations at that time could cover up or conceal the low results. This is not possible today. Third, data for the last 32 years prove that the sugar content in beets in the eastern and northern regions of our province is more than double that in the southern region and half again higher than that in the middle region. The cost of producing 1 ton of sugar from the sugar beets in the northern region is 70 to 100 yuan lower than that produced from beets grown in the middle region and 140 to 200 yuan lower than that produced from beets grown in the southern region. The differences in economic results are very clear. Fourth, consideration of the initiative of a county should not be made at the sacrifice of macroeconomic results.

I believe that under the present tax and price conditions the selection of a suitable region and economically rational scale should also be based on the following conditions: the quality, or sugar content, of the sugar beet raw material should be more than 16 percent and preferably 17 percent. The supply of raw materials (sugar beet, raw coal, and limestone) should be plentiful. Necessary water supply and transportation conditions must be available. A definite number and standard of management and technical personnel must be available.

In the initial period after the founding of the People's Republic, the scale of sugar beet sugar mills constructed in our country was in the 800 to 1,000 tons per day range. During the big leap forward, mills of approximately 5 to 20 tons per day were constructed. During the mid-1970's, especially after the 3rd Plenary Session of the 11th CPC Central Committee, the "small native group" leftist construction ideology was shattered, and a group of 500-ton-per-day sugar mills were constructed and expanded. Large sugar mills were also expanded. Thus, the scale of sugar mills went through the three stages of large, small and medium, and their economic results were also high, low and medium, in direct proportion to the scale of other plants. In distribution, of the four large mills constructed during the initial period after the founding of the People's Republic, three were in the eastern and northern high sugar content regions. Most of the medium-sized mills constructed during the mid-1970's were in the medium and low content regions. From their economic results, it is not difficult to reach the following two conclusions: For sugar mills of the same size, those in regions with high sugar content make a profit and those in regions with low sugar content suffer a loss. For sugar mills in the same region, the differences in results due to differences in size are even more obvious. Based on the actual conditions of sugar mills in the entire province and using mills of 500 tons of daily processing capacity as standard (100 percent), comparative economic results for mills of other daily processing capacities are shown below: (unit: percent)

	<u>1,000-ton Mill</u>	<u>1,500-ton Mill</u>	<u>2,000-ton Mill</u>	<u>3,000-ton Mill</u>
Investment saving per unit capacity	6.2	16.6	25	27.2
Processing cost savings per ton of sugar	20	36.7	41.7	50
Additional taxes and profits earned per unit investment	39	70	100	123
Additional taxes and profits earned per ton of sugar	52.2	72.6	89.4	98.2

On the basis of this, I have the following suggestions:

1. Further plan sugar beet crop zones. Shift producing areas to the northern and eastern high sugar content regions. Maintain or appropriately develop planting acreage in the medium sugar content regions. Plan reduction of planting in the low sugar content regions and, at the same time, adopt measures to improve sugar beet quality in these regions. New mills must be constructed in the high sugar content regions.

2. Using the standard of 15 percent annual return on investment, a 1,500-ton-per-day sugar mill requires an investment of 40 million yuan (excluding investment for comprehensive utilization outside the three-waste treatment and [production of] alcohol). With an annual sugar output of 30,000 tons and 200 yuan of taxes and profits per ton of sugar, the annual return is 6 million yuan. The entire investment can be recovered in approximately 7 year. This should be the lower limit of a rational sized sugar mill. The better of the existing medium mills should be selected for reconstruction into large mills.

3. In order to correctly take care of benefits for various sides, the construction of jointly operated sugar mills by several counties through joint investment methods may be considered. The benefits in terms of products, taxes, profits, and labor employment should be jointly shared and rationally distributed to avoid fighting for profits with the result of no one getting any benefit.

5974

CSO: 4013/03

DOMESTIC TRADE

FEATURES OF FLOURISHING MARKET REPORTED

Tianjin TIANJIN RIBAO in Chinese 31 Jul 83 p 1

[Article by Yin Shaoxian [1438 4801 0341] and Chen Shihe [7115 1102 0678]:
"Supply the Needs of Busy Season According to the Characteristics of Industrial Product Market"]

[Excerpt] The current market has several new features:

Increased demand on rural markets. This increase is shown in two respects: First, the cash income for people in both urban and rural areas has been universally increased, but the increase in the countryside is greater than in the cities. Along with the large increase in the peasants' income, the market for industrial products for the 800 million peasants, whose purchasing power has a very large potential and is showing the prospect of a flourishing market during the busy season. Second, because of the development of commodity production and the increased supply of goods, the flow of commodities to the countryside has stimulated and attracted the peasants' purchasing power. The orientation of rural purchasing power at present is still production, housing and daily use in that order; however, in the more wealthy areas and among the well-to-do peasants, the pattern of spending has undergone a marked change, since a fairly large portion of their spending has been diverted from the means of production and building materials to daily consumer goods. The daily consumer goods which sell fairly well in the countryside are as follows: First, commodities for wearing and daily use that may save household labor. After the adoption of the system of responsibility for production, the peasants are now busy in farming and sideline production, and earnestly want to be extricated from arduous household labor. The purchase of readymade dresses and utensils are continuing to increase. For example, the sales of such items as garments, cloth shoes, cotton suits and so forth are now greatly increased. Second, the demand for children's goods, particularly children's clothing, shoes and hats, has been sharply increased with a corresponding increase in sales. Third, the demand for indoor furnishing has increased. As soon as a new house is completed, everything inside has to be purchased. Furniture tops the list, followed by bedding, decorations, TV sets, recorders and laundry machines.

Expansion in the sphere of consumption in the urban and rural areas. In the cities, this expansion is vividly shown by the popularization and updating of

durable consumer goods. According to a survey on the requirements of 800 working families in our municipality, the demand for large durable consumer goods increased 92.6 percent in 1983. The increase was 31 percent in electric fans; more than 4 times in color TV sets; nearly 2.5 times in tape recorders; more than double in laundry machines; double in refrigerations; and 7 times in cameras. Furthermore, there is a tendency for these durable consumer goods to be updated. Single-tank laundry machines are being changed to double-tank ones; black and white TV sets are being changed to wide-screen color sets; and electric fans are being changed from desk fans to floor and ceiling fans. Because of the increase in purchasing power and the extension of power grids, TV sets, electric fans and tape recorders are rapidly finding their way to the countryside in increasing quantities. Scientific farming and the development of agricultural techniques have led to a new increase in the demand for chemical raw materials and plastic sheets, while the rise in peasants' living standards has brought tap water and heating into their homes, thus increasing the sales of hardware and water heating materials.

New demands for commodities for wearing and daily use. For wearing, the demand for "thick, heavy and durable" materials is now for "soft, cooling, light and thin" materials. In autumn and winter, people like the feel of fur; in spring and summer, they like to feel cool. For daily use, the articles have to be attractive and of low price and good quality.

New increase in the demand for stationery. In the supply meeting in the second half of the year, 442 types of stationery were offered for sale and the volume of transaction on 240, 63.3 percent, of them was more than in the first half year. Nearly 30 percent of these types were basically sold out, and the supply of some items, such as ink, notebooks, accordions, basketballs, footballs, and brass instruments was inadequate for the demand.

9411

CSO: 4006/776

DOMESTIC TRADE

BRIEFS

HENAN COMMERCIAL IMPROVEMENT--Since the beginning of the third quarter of this year, urban and rural commercial enterprises in Henan Province have done well in reducing deficits and increasing surpluses. The amount of profits by the end of September reached 203.57 million yuan. The number of commercial enterprises which incurred losses and the amount of losses dropped relatively greatly. The provincial commercial department has organized some 40 cadres into 12 work teams. Led by the director of the department, they have gone deep into all places to investigate and understand the situation in the business and management of enterprises. They have also held several forums to especially analyze and study the economic problems. An on-the-spot meeting on supply and marketing cooperatives' structural reform was held in Wuzhi County. In September, 177 grassroots supply and marketing cooperatives turned losses into profits. [Summary] [Zhengzhou Henan Provincial Service in Mandarin 1100 GMT 17 Oct 83 HK]

CSO: 4006/72

FOREIGN TRADE

CONTINUED DEVELOPMENT OF SHENZHEN SPECIAL ECONOMIC ZONE REPORTED

Guangzhou NANFANG RIBAO in Chinese 8 Aug 83 p 1

[Text] Focusing its efforts on industrial development, the Shenzhen Special Economic Zone is now building complete industrial parks with loans in order to create an excellent environment for domestic and foreign investments. Those which are now being vigorously developed are the Shangbu Light Industry Park, the Food Industry Park and the Bagualing Comprehensive Industry Park. Preparations are underway for the gradual development of the Suibei and Liantang Industrial Parks.

To our knowledge, the three industrial parks now under construction--namely, Shangbu, Food and Bagualing--occupy a total area of 1.35 km. According to the plan, they will become three pollution- and noise-free industrial parks mainly for the development of electronic, light and textile, food, household hardwares and household electrical appliances industries. In the Shangbu Light Industry Park, there will be 17 blocks of standard factory buildings of 5-6 stories with a total floorspace of more than 178,000 square meters, and a central administration mansion of 12 stories and a floorspace of more than 68,000 square meters. At the same time, a number of auxiliary public facilities, such as transformer stations, restaurants and dormitories will be built. The Bagualing Comprehensive Industrial Park will be divided into seven sections according to special needs. These sections will include specialized industry factories, standard factory buildings, multistory commodity residential houses, and a scenic area. There will also be some specialized enterprises with intensified work process and heavy equipment, and other light industrial projects. According to the plan, 40 blocks of 5-story standard factory buildings with a total floorspace of 280,000 square meters, and 10-15 blocks of commodity residential houses of 20 stores will be built. In addition, 30-50 special factory buildings will be built according to the customers' requirements. The total construction area in the entire industrial park will be 1.6 million square meters. When these three industrial parks have been completed, it is estimated that 400-500 large and small factories and enterprises with approximately 40,000 workers and staff members can be accommodated here. At present, a huge 10,000-strong construction army is engaged in filling gullies, leveling the ground, repairing roads, digging ditches, and working day and night in these industrial parks. A responsible person of the engineering command in the industrial parks told the correspondent that in slightly more than half year since the beginning of the construction, more than

half year since the beginning of the construction, more than 4 million cubic meters of earthwork were completed in the three industrial parks. At present, in Shangbu Light Industrial Park, the work of water supply, water drainage, power supply, telecommunications, road traffic and ground leveling has been completed, and the 17 blocks of standard factory buildings are nearly completed. They will soon be ready for use and have already been sold out. Work is also proceeding in earnest in the Bagualing Industrial Park where more than 80 percent of the land has been leveled by bulldozers, and work on the 20 blocks of standard factory buildings will be started this year.

At the same time, a series of policies on giving even more preferential treatment to customers regarding land rent, taxation, profit distribution, foreign-exchange handling and so forth have been adopted to induce foreign investment and integration at home. In collecting rent on the land from some advanced and fairly large factories and enterprises, for example, a further 20-40 percent discount has been granted on former most favorable rates. That is why more and more entrepreneurs have been induced to come for investment. According to incomplete statistics of the shenzhen Municipal Industrial Development Service Co alone, 12 industrial projects have been imported this year, and the planned amount of investment is more than 64 million Hong Kong dollars. There are also 42 domestic integrated industrial projects with a planned investment of more than 163 million yuan in RMB.

9411

CSO: 4006/776

FOREIGN TRADE

EXPANSION OF ZHUHAI SPECIAL ECONOMIC ZONE APPROVED

Guangzhou NANFANG RIBAO in Chinese 27 Jul 83 p 1

[Report by reporter Tao Guangyuan [7118 0342 0337]: "The State Council Has Approved Expansion of the Scope of the Zhuhai Special Economic Zone"]

[Text] To make things convenient for the development, construction and management of the Zhuhai Special Economic Zone, the State Council recently approved the readjustment and expansion of the scope of the Zhuhai Special Economic Zone. The scope of the special zone after the readjustment will link together the original designated eastern portion and central portion. The western portion will remain unchanged. The acreage will expand from 6.81 sq km to 14.1 sq km.

When the Zhuhai Special Economic Zone was established in 1980, there were three parts--the eastern portion, the central portion and the western portion. The eastern and central portions were not linked together and posed an inconvenience to management. In light of the practice over the last 3 years or so and the reality of the situation in Zhuhai, a decision was made to carry out an appropriate readjustment. After the readjustment, the direction of the line of management in the special zone begins at the Dagumu coast on the east, then it runs along the Bingang Highway, which includes the Shijingshan, the Shijingshan Tourist Center, the Zhuhai Hotel and the Xiangzhou Woolen Textile Factory. It further runs along the 25-meter contour line to the borderline between Beiling and Lanpu, then through the Xiawan Pressure Station to the Qianshan He.

The readjustment of the scope of the Zhuhai special zone has the following three advantages: First, it can increase the economic strength of the special zone, which will be favorable to accelerating the pace of the building of a comprehensive special zone. After the readjustment, the joint ventures such as the Shijingshan Tourist Center, the Zhuhai Hotel and the Xiangzhou Woolen Textile Factory as well as the Gongbei District, which has already had a definite industrial and agricultural foundation, have all been included in the scope of the special zone. In addition, there are already 14 projects of joint investment and cooperation in the special zone that have already been signed (with a planned investment of \$1,114,000,000). This will increase the actual strength in building the

special economic zone, and will improve to a relatively great extent the environment for investment in the special zone. Second, it leaves more ground for the construction of a comprehensive special economic zone, which will be favorable to making rational arrangements and planning for the construction of the special zone. The major portion of the original special zone is a long and narrow coastal strip of three small pieces that are not linked together. Now that they are linked together, they are convenient for unified planning. The rate of land utilization is also raised. Third, the line of management is shortened, which will be favorable to doing a good job of the management of the special zone. Originally, the special zone was divided into three parts: the east, the central and the west. The line of management was long and tortuous, with a length of 29 km, requiring five locations for import and export. After the readjustment, the line of management can be shortened to 16 km, reducing the major import and export locations to two. This not only will be favorable to the management of the special zone, but will also economize the investment in management facilities.

9335

CSO: 4006/742

FOREIGN TRADE

UTILIZATION OF FOREIGN FUNDS REPORTED

Guangzhou NANFANG RIBAO in Chinese 31 Jul 83 p 1

[Report: "Nearly 5,000 New Contracts Were Signed Between our Province and Foreign Businessmen in the First Half of This Year"]

[Text] Yesterday, the responsible person of the provincial committee on external economic work revealed to the reporter that in the first half of this year, new progress has been made throughout the province in utilizing foreign funds to import technology. At the introductory meeting to the forthcoming exhibition on the results of utilizing foreign funds throughout the province, he summed up the seven characteristics and results of our province in utilizing foreign funds and the prosperity and progress in our province as a result.

This responsible person said: In the first half of this year, 4,949 contracts and agreements on utilizing foreign funds have been signed between the province and foreign businessmen, showing an increase of 40.56 percent over the corresponding period of the preceding year. The actual investments by foreign businessmen increased 42.38 percent over that of the corresponding period of the preceding year. The various imported facilities increased 43.8 percent over that of the corresponding period of the preceding year. The entire situation of importing foreign funds is a heartening one. In the 14 years before 1978, the speed of growth of our province's gross industrial and agricultural output value was lower than the average level throughout the country. But in the 4 years after 1978, the gross industrial and agricultural output value showed an average progressive annual increase of 8.5 percent, which was higher than the average rate of growth throughout the country. This is entirely the result of the whole province boldly importing and utilizing foreign funds after the central authorities stipulated the open door policy and implemented special policies and flexible measures toward our province. He summed up the seven obvious characteristics and results of our province in utilizing foreign funds.

--In utilizing foreign funds, our province is primarily utilizing direct investments by foreign businessmen. Of some \$4.2 billion of planned investments by foreign businessmen up to this point, over \$4.1 billion are direct investments (including joint investment operations, cooperative

operations, operations with exclusive investment by foreign businessmen, processing and assembly abroad, and compensation trades), while some \$73 million are loans from foreign businessmen. This structural mode of utilizing foreign funds has minimized our risks and undoubtedly is extremely favorable to us.

--In importing a large amount of advanced technological facilities, we have our eyes on the technological transformation of old enterprises and the heightening of the competitive ability of our export products. For instance, Xinhui has imported from West Germany and England the high-speed polyester fiber spinning machines and their accessory facilities of the eighties. The Guangming Overseas Chinese Livestock Farm has imported the automatic computer-controlled production line for packaging milk in paper cartons. Shenzhen has imported polychromic printing facilities from West Germany, photomechanical printing technology from Japan and microwave communications from the United States.

--Having imported some improved varieties of seeds and livestock, we have promoted the development of agricultural and livestock production. For instance, we have imported from Belgium the improved variety of hogs of the "shi ge [2457 2706]" family that yield 62 percent lean pork, imported from Australia the "di gao [3695 7559]" dry land ducks that have high adaptability and that weigh 6.5 jin after 56 days of feeding, and imported from Thailand a new sugar product, sweet chrysanthemum.

--The newly built and rebuilt hotels have promoted the development of tourism and have further provided the conditions for attracting and utilizing foreign funds. In the last several years, the whole province has utilized foreign funds to rebuild and build 203 tourist hotels, with a total of over 10,000 rooms. These tourists hotels are spread all over the 24 cities and counties throughout the province.

--We have imported experiences in advanced business management and fostered a group of new style management personnel.

--We have utilized foreign funds to complete a group of newly built joint enterprises. For instance, the provincial overseas Chinese enterprising company has utilized foreign funds to start 36 projects, and has become an agricultural, industrial and commercial integrated body of comprehensive development in agriculture, light industry, animal husbandry, food processing and tourism.

--We have promoted the rapid development of the three special economic zones.

9335

CSO: 4006/745

FOREIGN TRADE

BRIEFS

HANGZHOU TOURISM--23 Oct (XINHUA)--Hangzhou with its scenic West Lake will be able to receive some 2.6 million tourists annually by the year 1985, according to a plan just worked out by the municipal government. This lovely capital city of Zhejiang Province will become a center covering Huangshan in neighboring Anhui Province and other famous tourist attractions in that region, according to the local government officials. Earlier this year the State Council designated the city as one of major tourist centers in China. It urged Hangzhou to concentrate on expanding tourism and industries servicing tourism. The plan also includes drawing water from the Qiantang River to purify West Lake and removing factories which pollute the atmosphere around the lake. Existing parks will be renovated and expanded and new parks will be built. New hotels will be built adding accommodations for about 10,000 people. Cinemas, concert halls and restaurants serving the local and Western style cuisine will be set up near the lake. Clubs will be built with tennis courts and swimming pools. The Hangzhou tourist company plans to promote the development of special local products to better serve the tourists. [Text] [OW230748 Beijing XINHUA in English 0736 GMT 23 Oct 83]

CSO: 4020/19

GENERAL

NEW DEVELOPMENT IN GUANGDONG RURAL ENTERPRISES REPORTED

Guangzhou NANFANG RIBAO in Chinese 16 Aug 83 p 1

[Article by Huang Rong [7806 2837] and Qin Guangdou [6009 0342 2435]: "New Development Again in Enterprises Run by Communes and Production Brigades in Our Province"]

[Text] There was new development again in the enterprises run by communes and production brigades in our province in the first half of this year. Their total income was more than 2.73 billion yuan, 10.7 percent over the same period last year. In Zhanjiang Prefecture, the increase was 34.8 percent; in Shaoguang Municipality, 21.1 percent; and more than 10 percent in Guangzhou, Huiyang, Shaoguan and Zhaoqing prefectures and municipalities (all based on original statistics of the prefectures and municipalities).

Since the beginning of this year, a remarkable characteristic of the enterprises run by communes and production brigades in our province has been that all the localities paid attention to the development of commodity production by adapting measures to local conditions, bringing into play their strong points in their mountains or rivers, and giving priority to certain trades and products. In Shaoguang, Huiyang, Zhaoqing, Meixian and Hainan Island where there are many mountainous and hilly areas, and plenty of land, water power and mineral resources, the commune-run and production-brigade-run enterprises focused their efforts on the development of planting and livestock, small hydropower stations, and coal mining. In this way, they have supplied to the state huge quantities of agricultural and sideline products, raw materials and energy resources. In Shantou, Zhangjiang and other coastal areas, cattle raising and fish breeding have also undergone new development.

One of the important causes of the development of commune-run and production-brigade-run enterprises is the adoption of the system of responsibility among the enterprises. Among more than 88,000 enterprises run by communes and production brigades in the province, more than 77,000 of them have adopted the system of responsibility in various forms in the first half year. These enterprises accounted for more than 80 percent of the total number, and this system has effectively improved their economic results. At the same time, the localities continued to attend to the reorganization of commune-run and production-brigade-run enterprises, and warmly supported the development of enterprises in the form of commune members' cooperation. These enterprises

were also helped in starting and managing joint operations, in developing exports and the processing of supplied materials, the assembling of supplied parts, the production of goods according to supplied samples, and compensatory trade. All these have played a positive role in the development of commune- and production-brigade-run enterprises. In Zhongshan County alone, the enterprises signed 249 "three supplied and one compensatory" contracts with foreign merchants in the first half year, imported equipment worth 12.63 million Hong Kong dollars, and received a net amount of labor charge of more than US\$2 million, an increase of 17.5 percent over the last period last year.

9411

CSO: 4006/776

GENERAL

APPLICATION OF INPUT-OUTPUT METHOD ADVOCATED

Beijing GUANGMING RIBAO in Chinese 8 Aug 83 p 3

[Article by Ge Wei [5514 0251]: "Input-Output Method and Its Application in Our Country"]

[Excerpt] Research in and application of the input-output method have been going on in China for more than 20 years. In the early 1960's, some economists and mathematicians in our country raised the question of using the input-output method for planning and management at various levels of our national economy, and carried out preliminary experiments in compiling and using input-output tables in enterprises. Since the 3d Plenary Session of the 11th CPC Central Committee, when the focus of work of the party and the state shifted to economic construction with the four modernizations drive as the central task, people in economic circles as well as the planning, administration and statistics departments have attached great importance to this input-output method, and have used it in many different ways to deal with problems with remarkable success. They have accumulated useful experiences and laid a firm foundation for the application and popularization of this method.

The scope of application includes the following aspects:

Economic Analysis: To be used, for example, in studying a series of important proportionate relationships between the two major categories of products, between agriculture, light industry and heavy industry, between accumulation and consumption, between intermediate and final demands, and between intermediate consumption and newly added value; and in analyzing the present national economic structure and its changes.

Policy Simulation: To be used, for example, in estimating the direct or indirect chain reaction in the entire economy caused by the changes in prices of certain products; in simulating the import-export policy or the extent of interaction between the changes in the incoming and outgoing volumes and the economic activities in the country or in certain regions; and in studying the effects of changes in the consumption pattern on various sectors of the national economy and the resultant changes in the corresponding production pattern.

Economic Forecast: To be used, for example, in forecasting the input and output value of various products in various sectors of the national economy; in

forecasting the changes in the structure of material consumption and the structure of demand for labor brought about by different output structures and final demand structures; and in forecasting the demand for certain important products (such as energy) in the national economy within a certain period.

Planning Appraisal: To be used, for example, for appraising the national economic plan, zone development plans, and marketing plans on the basis of an overall balance of production, supply and marketing and of manpower, money and materials. Then a practical optimal plan can be determined through comparative analyses.

In addition, the input-output method can be used in studying technical transformation, cost and price, fixed-asset investment, the economic and technical relations between departments and products, energy, population, labor consumption, environmental protection, urban public transportation, all-round improvement of enterprise operation and management, and special economic problems in different parts and links of a system.

Anshan Iron and Steel Co was the first enterprise in our country to study and apply the input-output method. It used this method on different aspects of statistics analysis, quota management, structure readjustment, planned balance, result assessment and marketing forecast. This method became an effective tool in implementing the system of economic responsibility featured by a combination of rights, responsibilities and interests with the improvement of economic results as the central task. At the same time, the compilation of input-output tables was organically combined with the setting up and perfecting of an all-round enterprise accounting system so that the work of planning and management could continue to develop in a scientific and quantitative way.

Shanxi was the first province in our country which succeeded in compiling input-output tables. These tables, showing the input and output of materials objects and value in 1979 and reflecting the complex economic and technical relations between different departments and different products in Shanxi have been used by the long-term planning institutes engaged in the building of energy, heavy industry and chemical industry bases in Shanxi.

It should be pointed out that, like all other economic mathematic methods, the input-output method also has its hypothetical and restricting conditions. Simple advantages have at the same time also brought with them restricting factors. This should be noted in research and application.

9411

CSO: 4006/776

GENERAL

UPHOLD, IMPROVE SYSTEM OF COMMAND-STYLE PLANNING

Beijing JINGJI RIBAO in Chinese 23 Jul 83 p 3

[Article by Gui Shiyong [2710 0013 6978]: "We Must Uphold and Improve the System of Command-Style Planning"]

[Text] Just as Comrade Hu Yaobang pointed out in the report at the 12th CPC Congress, in order to correctly implement the principle of the leading role of the planned economy and the supplementary role of market regulation, we must correctly resolve the problem of the two interrelationships: 1) Under the prerequisite of upholding planned production and circulation as the main body, allow the production and regulation of some products to be regulated through the market; 2) under the prerequisite of upholding the implementation of command-style planning in regard to the important economic activities and enterprises, emphasize the utilization of economic levers in the implementation of guidance planning on many general economic activities and enterprises in order to guide these enterprises to take the initiative in realizing the requirements of the state plans. At the same time, we must further improve the system of command-style planning so as to ensure that the plans are geared to actual circumstances and are implemented more properly. Solving these problems properly, our economic system of organization will not only be different from the Soviet Union's mode of equating planned economy with a command-style planning that includes everything, but will also be different from those economic systems that abolish command-style planning and rely primarily on market regulation and circulation. We will have a socialist system of planned economy that embodies our own characteristics.

A major aspect in upholding and perfecting the planned economy is to uphold the implementation of command-style planning within the vital sector and at the same time improve the system of command-style planning. There is one viewpoint which holds that the implementation of command-style planning in any sector will still foster blind command, fetter the enthusiasm of enterprises and lower microeconomic results. We hold that this understanding is one-sided and incorrect. Implementing command-style planning in the production and distribution of important products and toward the core enterprises that are related to the overall situation is the basic symbol that distinguishes the socialist planned economy from and makes it

superior to the "intervention" economy of the capitalist countries. Implementing command-style planning within the necessary and possible scope not only is a necessary measure in realizing the overall balance of the national economy but is also an important condition for ensuring steady external relations for the enterprises, which will bring into full play the enthusiasm of the enterprises. In addition to our "Leftist" mistake in our guiding principle, our previous problem was that the scope of command-style planning in our system of planning was too big, the targets too numerous and the various targets often failed to dovetail. Furthermore, we negated the necessary rights and interests of the enterprises. As a result, our economy lacked vitality and we incurred a lot of waste and losses. This is only an indication that we must have an appropriate scope for command-style planning and must improve our methods. This should not be an argument for abolishing command-style planning. Under the socialist condition, the state should and can conduct scientific forecasts and accurate calculations and make arrangements that are more suited to reality in the direction of development of the entire economy, in the proportionate relationships between the vital sectors, in the supply and demand for major products and in the construction of important projects. We should not hold that the implementation of command-style planning invariably fosters blind command. We should be able to realize that only when we uphold command-style planning within the vital sector and when the state is directly in charge of the economic lifeline and the core enterprises can we: 1) guide the other enterprises in implementing the state's guidance plans through the production, economic and technological alliance between these enterprises and the other enterprises; 2) have the necessary economic force to influence such economic levers as pricing and credits in accordance with the interests of the whole society, and enable the latter to enhance the realization of the state plans. Thus, this is also a necessary factor for effectively implementing the guidance plans and letting market regulation serve the planned economy. If we abolish command-style planning and implement only guidance planning, then all the enterprises will act in accordance with their partial interests. This will inevitably weaken the planned economy, and a state of anarchy in social production will spread unchecked. If, on the one hand, we stress that market regulation is an organic component part of the planned economy and refuse to clearly distinguish planned production and circulation from market regulation and, on the other hand, resolutely rule out command-style planning as a necessary form for a planned economy and hold that the state plans should be realized only through market regulation, then we will obscure the internal relations between the planned economy and the system of public ownership, in particular the system of ownership by all the people, will obscure the basic implication of the planned economy as a socialist category. If we do not do a good job now, we will reverse the primary and secondary relationships between the planned economy and market regulation.

When we emphasize that command-style planning is the primary form in planning and management, we are implying that it is not the only form. Under the condition of implementing command-style planning in regard to the important products and core enterprises, we should and also can implement guidance plans in regard to many products and enterprises. In this way,

when it appears that the state has relaxed its planning and control toward these products and enterprises, it in actuality has adopted a more effective measure under the condition of upholding the leading role of command-style planning to combine state planning and guidance with the initiative of these enterprises, which will be more favorable to promoting the development of the economy in a proportionate manner and with high results. Thus, this is also an important measure which we must not ignore in improving and perfecting the planned economy. The viewpoint that the state plans must be command-style and that implementing guidance planning within a definite scope will weaken the planned economy is also a one-sided and incorrect one. We should break away from this traditional and unrealistic concept and strive to probe and create the forms and experiences in implementing guidance planning on many enterprises. We must also carry out many major reforms in command-style planning itself. Besides reducing its scope of implementation in a manner that corresponds to the implementation of guidance planning and giving play to the supplementary role of market regulation, we should also accomplish the following: 1) toward those enterprises that are implementing command-style planning, we must also give them the necessary powers to make decisions in management, enable them to better implement and supplement the state plans in the light of reality, and enable them to possess definite financial resources for improving production technology and business management; 2) we must fix the relationship between the economic results of the enterprises with their material interests and enable the enterprises that do business well to obtain corresponding interests while making more contributions to the state; 3) while using administrative measures to implement the plans, we must attach importance to using such economic levers as pricing, taxation and credits to guide the enterprises to fulfill their plans; 4) we must improve the procedures and methods in stipulating command-style planning, strengthen our research and forecast of the situation of market supply and demand and its trend of change, conscientiously listen to opinions from various aspects concerning the plans, and raise the scientific character of the plans, etc.

Changing a portion of production into market regulation, changing many enterprises which formerly implemented command-style planning to implementing guidance planning and at the same time further improving command-style planning itself--all this constitutes a major reform in our country's previous economic system of organization. The scope of involvement is broad. There are many problems that need to be resolved. This is definitely more than minor revisions, as some comrades indicate. Here, we have the issue of understanding of the direction of reform as well as the issue of evaluation of our previous system of organization. These two issues are closely related to each other. There are three different evaluations of our country's previous economic system of organization. The first one is that it is an excellent and flawless one that does not need to be improved and also should not be improved. This shows the habit of acting in accordance with old methods. The second one is that it is a terrible one. It has no positive qualities. This evaluation even holds that our previous economic system of organization was not a socialist system of planned economy but a "feudal monopoly economy" or some other

economy. The question is not one of revision but one of the need to overthrow and rebuilt it. The third one holds that our previous economic system of organization was a system of planned economy established on the basis of the system of public ownership. This system of organization has major strong points that are able to appropriately concentrate the forces throughout the country to solve the key problems in the national economy that urgently need to be solved. But this system also has many serious shortcomings. Our reform is to eliminate its shortcomings, bring its strong points into play and perfect it. The above-mentioned measures are precisely the necessary reforms to attain this purpose. We should say that in examining our issues from both the theoretical and practical standpoints, the third viewpoint is a practical and correct one.

Will contradictions take place in the implementation of the different forms of management such as command-style planning, guidance planning and market regulation in a unified national economy? There will be contradictions. It is because, under such a circumstance, some products of a similar category may come under planned distribution while others may come under free exchange, and may even have different prices. The products that are exchanged freely may have to adopt as raw materials those products that are under planned distribution, and the products under planned distribution also may have to use as materials products under free exchange. This way, if we do not do our job well, either the portion under market regulation will assault planning, or the proper role of market regulation cannot be brought into play due to inflexible planning and management. However, because the purpose of adopting these forms is to ensure the proportionate and lively development of the national economy, and because command-style planning is playing the leading role, an antagonistic conflict will not take place as long as we strive to correctly handle and appropriately resolve the contradictions between them. Our task is to correctly draw up the individual scopes and boundaries of command-style planning, guidance planning and market regulation in light of the concrete situations of the various periods and solve the contradictions between them and harmonize their relationships in actual work. Without a doubt, this is a very complex and difficult task. But we cannot run away from this difficulty. We cannot envision a simple and unified method to deal with a complex socioeconomic reality. On the contrary, we should, in the course of overcoming this difficulty, enable the form of economic management to gradually meet the needs of reality and set up a socialist economic system of organization that suits our country's situation.

9335

CSO: 4006/745

TAIWAN

HONG KONG BANK TO OPEN BRANCH IN TAIPEI

OW250555 Taipei CHINA POST in English 21 Oct 83 p 5

[Text] The Ministry of Finance Wednesday officially approved the application of the Hong Kong and Shanghai Banking Corporation to raise its liaison office in Taipei to the status of branch office.

The banking corporation registered a total of US\$1.2 billion in transaction with the Republic of China in 1982. Not long ago, it approved a loan of US\$140 million to the Taiwan Power Company. Thus, it qualified itself to solicit the establishment of a branch office in Taipei.

The Hong Kong and Shanghai Banking Corporation was founded in 1866. It is the largest bank in Hong Kong and one of the two banks commissioned by Hong Kong authorities to issue Hong Kong dollars. By the end of 1982, the bank had a total of 379.2 billion Hong Kong dollars of capital available, ranking it as the 28th largest bank in the world.

The bank has 41,500 employees and more than 1,000 branch offices or liaison offices established in 53 countries, the ministry pointed out.

The branch office is expected to be inaugurated early next year.

The Hong Kong and Shanghai Banking Corp. and the Chartered Bank are the only two banks authorized to issue bank notes in Hong Kong.

Other affiliated important banks are British Bank of the Middle East, Mercantile Bank, Ltd., Hang Seng Bank, Ltd. and Marine Midland Bank.

CSO: 4020/21

CURRENT STATE OF DEVELOPMENT IN CHINA'S NUCLEAR INDUSTRY

Hong Kong WEN WEI PO in Chinese 15 Aug 83 p 2

[Editorial: "China Vigorously Promotes Nuclear Industry"]

[Text] Relying on the strength of its own efforts, in 1964 China exploded its first atomic bomb. At the time, some people thought this was a wasteful spending of money on an extravagant toy, and they fiercely attacked Beijing.

Ten years later, looking back on the course of events, people could clearly see that Beijing's strategic decision that year was correct.

First, China developed nuclear weapons purely for self-defense. By having nuclear bombs, it broke the superpowers' monopoly over them. The superpowers did not dare to blackmail China, which vigorously defended its sovereignty and territorial integrity.

Second, the manufacture of the atomic bomb caused China to break the foreign countries' blockade, set up an independent nuclear industry system, develop nuclear technology and train New China's nuclear scientists, thereby preparing conditions for the peaceful use of nuclear energy. Invariably the development of military industrial technology spurs a leap in civil industry. Today New China already has uranium ore extraction equipment and possesses nuclear reactors, and thus it is completely capable of developing the generation of electricity by nuclear energy.

The progress of China's four modernizations has been held back by an insufficiency of energy. For a long time areas along the coast and areas in south China have been energy deficient, and this has slowed the pace of industry's advance. In order to solve its energy problem, in the next 10 years China must still spare no effort to lay a big foundation for the energy industry, so that after the beginning of the decade of the 1990's the energy industry will be able to take off.

In certain nuclear fields, China stands in the world's advanced ranks; in certain nuclear fields, there is still a gap between China and the advanced countries. In order to make nuclear energy more useful for peaceful purposes, China has signed a nuclear research and cooperation agreement with France, and other Western countries are willing to cooperate with China.

This situation has arisen because, first of all, China possesses a certain nuclear technology. This cooperation is mutually beneficial, and if China did not have nuclear capability others would find it very difficult to consider cooperation with China.

Considering the matter from China's angle, in order to accelerate the utilization of energy, it must integrate the practice of self-reliance with the introduction of foreign advanced technology, overcoming its own shortcomings by learning from the strong points of others. In view of this, China's active participation in the activities of the international nuclear energy organizations is desirable. This could help China better utilize the facilities of international nuclear energy organizations, develop its nuclear energy industry, and begin an exchange of international technology. China has already announced that it is willing to accept the relevant regulations of the International Atomic Energy Agency [IAEA] and to accept supervision and control when importing from foreign countries and transporting nuclear equipment for peaceful uses. But China maintains a critical attitude toward the "treaty to prevent nuclear proliferation," which benefits the big powers' monopoly on nuclear technology.

America welcomes China's joining of the IAEA, and has indicated that China need not sign the nuclear nonproliferation treaty and need not allow international supervision and control of nuclear facilities made in China. This state of affairs shows that the construction of the four modernizations requires China to maintain its open-door policy and to actively take part in international activities, and that the international organizations need the participation of China as a big nuclear power in order to better promote the cause of the peaceful use of nuclear energy.

After China joins the IAEA it will have more freedom to pick out and buy foreign equipment and technology for nuclear power stations, and will have a choice as to price, buying the equipment from whoever sets the most reasonable price. During the period of the Sixth 5-Year Plan, China will buy four nuclear power plants from abroad. Indications are that Japan, America, Britain, and France will compete for this \$1 billion business.

9727

CSO: 4013/320

BANK OF CHINA RELUCTANT TO LEND HK DOLLARS

HK200238 Hong Kong HONG KONG STANDARD in English 20 Oct 83 Business Standard p 1

[Article by business editor Elizabeth Cheng: "Banks Scramble for Money in Tight Money Market"]

[Excerpt] Banks' scramble for Hong Kong dollars in a tight money market yesterday drove interbank overnight lending rates to a record high of 41 per cent at one stage, amid speculation that local prime may be increased by two per cent over the weekend. [paragraph published in boldface]

And indications are that overnight rates may continue to accelerate in the near term. Even at a rate of some 40 per cent, foreign banks would still prefer to go to the interbank market for Hong Kong dollars rather than buy the currency from the Exchange Fund at the fixed rate of \$7.80, a dealer said.

These banks might have figured that were they to buy U.S. dollars later at a rate of even one point above the fixed rate they would have stood to lose some 1.3 per cent in value or around \$10,000 on U.S.\$1 million. On the other hand, overnight rates at 40 per cent would only absorb some \$8,500. Not until these rates rise to 60 per cent and over would banks find it worth their while to deal with the Exchange Fund. The fund's insistence on cash transactions is an added disincentive, the dealer added.

Another dealer said confidence in the local unit and the economy here was a key factor in determining banks' willingness to part with U.S. dollars at the official rate. Yesterday's resumption of Sino-British talks on Hong Kong's future raised barely a ripple on the market, preoccupied as it was with interest rates movements.

Some reports attributed the tight liquidity to the Bank of China's reluctance to lend Hong Kong dollars on the interbank market, probably as part of an effort to add weight to the government's currency support measures.

The wide range in Hong Kong dollar exchange rates over the counter confused many customers yesterday. The Hong Kong Bank was reported to have offered U.S.\$ at \$7.83 while some U.S. banks were offering them at \$7.99.

The local unit yesterday traded between \$7.825 and \$7.845 against the U.S. dollar in the money market after opening at a high of \$7.89. It closed five cents up on the previous day's finish at \$7.83.

The dollar's trade-weighted index firmed by 0.7 to 67 points.

The government's new measures which gave the Exchange Fund a more active role appeared to have been successful so far in stabilising and restoring the Hong Kong exchange rates to firmer levels. However, the efficacy of these measures in the longer term is in question if interest rates continue to increase, making their adverse impact felt on the Hong Kong economy.

CSO: 4020/20

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