



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

# **China**

19980714 102

**DISTRIBUTION STATEMENT A**

Approved for public release;  
Distribution Unlimited

REPRODUCED BY  
**U.S. DEPARTMENT OF COMMERCE**  
National Technical Information Service  
SPRINGFIELD, VA. 22161

## NOTICE

JPRS will no longer publish the CHINA: STATE COUNCIL BULLETIN (CSB) report as a separate series. Instead, material from the bulletin will be published in the CHINA (CAR) series under the division STATE COUNCIL BULLETIN.

If any subscription changes are desired, subscribers should notify their distribution contact point. Nongovernment subscribers may contact the National Technical Information Service, 5285 Port Royal Road, Springfield VA 22161.

# China

JPRS-CAR-88-035

## CONTENTS

1 July 1988

### POLITICAL

|                                                |   |
|------------------------------------------------|---|
| Analysis of PRC Leadership Age Structure ..... | 1 |
|------------------------------------------------|---|

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

|                                                           |   |
|-----------------------------------------------------------|---|
| Country's Mid-Phase Economic Restructuring Outlined ..... | 7 |
|-----------------------------------------------------------|---|

#### FOREIGN TRADE, INVESTMENT

|                                                                 |    |
|-----------------------------------------------------------------|----|
| MOFERT Official on Foreign Trade Reform .....                   | 12 |
| Du Runsheng on Export-Oriented Strategy for Coastal Areas ..... | 19 |
| Analysis of Direct Overseas Investment .....                    | 22 |

#### AGRICULTURE

|                                                                  |    |
|------------------------------------------------------------------|----|
| Beijing, Hebei Vegetable Production, Marketing Suggestions ..... | 26 |
| Conflicts in Agricultural Production, Circulation .....          | 28 |
| Jiangxi Chemical Fertilizer Prices .....                         | 29 |

### SOCIAL

|                                         |    |
|-----------------------------------------|----|
| Jiangsu Symposium on Superstition ..... | 31 |
|-----------------------------------------|----|

### REGIONAL

#### EAST REGION

|                                                  |    |
|--------------------------------------------------|----|
| Shanghai's New Educational Reform Measures ..... | 33 |
| Open Competition for Personnel Urged .....       | 33 |
| Fujian Forum on Party Building .....             | 34 |
| Fujian People's Procuratorate Work Report .....  | 34 |
| Fujian People's Higher Court Work Report .....   | 36 |

#### SOUTHWEST REGION

|                                                                        |    |
|------------------------------------------------------------------------|----|
| Sichuan Party Leader on Importance of Party Building Amid Reform ..... | 37 |
| Sichuan People's Congress Appointments .....                           | 38 |
| Biographical Notes on Sichuan Governor, Vice Governors .....           | 38 |

### TAIWAN

|                                                                                                              |    |
|--------------------------------------------------------------------------------------------------------------|----|
| Editorial Discusses Gold Dispute With U.S. ....                                                              | 41 |
| Ministry Reports Decline in First Quarter Exports, Trade Surplus .....                                       | 42 |
| President Li Teng-hui Termed Former Communist Party Member<br>[Hong Kong KUANG CHIAO CHING, 16 Mar 88] ..... | 42 |

**Analysis of PRC Leadership Age Structure**  
40050241 Hong Kong KUANG CHIAO CHING [WIDE  
ANGLE] in Chinese No 187, 16 Apr 88 pp 10-15

[Article by Jiang Weiwen [3068 0251 2429]: "Is Ageing Normal?; An Analysis of PRC Leadership"]

[Text] Communist China upholds the policy of having younger people at the top level, but has difficulty with personal relations. The same situation exists on both sides of the Taiwan Strait: As soon as the question of retirement is mentioned, every old-timer would show a different attitude.

Some nonparty celebrities are viewing the question of remaining in the state's leadership structure as an important yardstick of their lifetime work. The CPC originally decided that, Yang Chengwu [2799 2052 2976], Chen Zaidao [7115 0375 6670], and Lu Zhengcao [0712 2973 2347] should remain in their posts as CPPCC vice chairmen after its 13th Congress. Out of "special considerations" for outsiders, however, they had to vacate these posts on the eve of the Congress in March.

After the 13th CPC Congress, some female leaders were dissatisfied with the absence of women at the top level, and some "older sisters" even lodged their protest!

The NPC and CPPCC high-level leaders of the next term will be even older in age! The average age of CPPCC vice chairman will be 75.8 years. Their work efficiency will be questionable, and people in Beijing are profuse in their comments.

Only the State Council has younger people at the top level. Li Tieying [2621 6993 2503], Yan Mingfu [7051 2494 1788], Zou Jiahua [6760 1367 5478], Li Guixian [2621 6311 7639], and Chen Junsheng [7115 0193 3932], all belonging to the "young and vigorous group" are steadily rising in power.

What will be the personnel disposition at China's top level as a whole? Please read this article.

The first sessions of the Seventh NPC and the Seventh CPPCC have ended. What followed was a drastic personnel reshuffle in the leadership structure.

The list of new top leaders of the state is generally the same as contained in our exclusive reports in the past several months. There has been new developments in China's democratic atmosphere and the "transparency" of its press. In his report to the 2d Plenary Session of the 13th CPC Central Committee, General Secretary Zhao Ziyang pointed out: "The list of principal state leaders to be nominated was the outcome of long deliberations and overall considerations during the 13th CPC Congress. In fact, it is part of the general personnel disposition worked out in the 13th CPC Congress." The choice of persons for important posts was already decided in November 1987. Yet it was necessary to invite people of

various walks of life to express their views during the long deliberations. What were formerly "personnel secrets" have gradually become "open secrets." This time, the people dared to express their disagreements openly and were instrumental in making revisions. Their action can be called a big step forward in China.

**Two Major Principles in Personnel Disposition**

New Chinese leaders will soon be at their work posts.

Now the question deserving our attention is: What was the basis of their overall consideration and long deliberations over the disposition of the party's top level personnel? This consideration reflects China's political situation and will have a bearing on its future political function.

According to information collected during my interviews, the two major principles to be upheld at China's top level are: first, to have younger persons for leading posts and to reduce as much as possible the obstacles to the changeover from the old to the young in order to preserve stability and smooth progress; and second, to bring about closer cooperation among different parties under CPC leadership and to invite people from various walks of life to take up leading positions in the state's leadership structure.

**Not Easy To Handle Personal Relations Problems**

Things, however, are always more easily said than done. Adherence to these two principles in personnel disposition as a whole is no easy matter.

The principle of having younger people has been firmly established in the party and nobody can voice any open objection. However, as soon as its implementation becomes a personal matter, some old-timers would show different attitudes. Last autumn, when the 13th CPC Congress hoped to accomplish its purpose of having younger people in its leadership structure, many setbacks were encountered during the discussions on this subject. In an exclusive report carried in its November 1987 issue, KUANG CHIAO CHING revealed how the arrangements of "semiretirement for three, and full retirement for four old-timers" were worked out after repeated discussions at the higher party levels before the 13th CPC Congress for the purpose of inducing some old-timers to retire from the Political Bureau and its Standing Committee. The readers may still have fresh memories of how things were. It was noteworthy that some of these old-timers retired from their leading posts in the party only on the condition that they take up leading positions in the state organs. In arranging for these "changes of positions," there was again the problem of personal relations for historical reasons. The situation has become very complicated.

**Yang Shangkun's [2799 1424 2492] Succession of Li Xiannian [2621 0341 1819] as President Decided during Deliberations over "Semiretirement for three and Full Retirement for Four Old-timers"**

It was a "semiretirement" for Li Xiannan. After relinquishing his presidency, he took over the CPPCC from Deng Yingchao [6744 4481 6389] upon her "full retirement." The post of president he vacated was filled by Yang Shangkun. After Peng Zhen's [1756 4176] "full retirement," his post as chairman of NPC Standing Committee was taken over by Wan Li [5502 6849], Politburo member of CPC Central Committee. These arrangements were also decided during the discussions over the "semiretirement of the three and full retirement of the four old-timers."

There are also some high-ranking party members who are in semiretirement but have to be placed in leading positions in the state structure. After some discussion, Ulanhu, former Vice President; and Xi Zhongxun [5045 0112 0534], former Politburo member, will become NPC Vice Chairmen, while Fang Yi [2455 3015], State Councillor and former Politburo member; and Gu Mu [6253 3668], former member of the Central Committee Secretariat, were relegated to the posts of CPPCC vice chairmen.

**Problem With Disposition of Ni Zhifu**

The withdrawal from the Politburo of Ni Zhifu [0242 1807 4395], whose rise was spectacular during the "Cultural Revolution," has certainly nothing to do with his age. The fact is that he cannot play any useful role politically. After the 13th CPC Congress, he left the top level of the party to take special charge of the All-China Federation of Trade Unions. Now he is vice-chairman of the NPC Standing Committee. Perhaps it is not without reason that a representative of workers should be placed in a top-level state organ.

**Wang Renzhong's More Active Role in the CPPCC**

In NPC, Wang Hanbin [3769 3352 2430], former Chief Secretary, has been promoted to vice chairman, though this was not officially announced. He has for decades worked under Peng Zhen, and actually taken charge of NPC's routine work. Now that Peng Zhen is replaced by Wan Li, Wang Hanbin's post of real power has to be taken over by Peng Chong [1756 0394] while he himself becomes NPC Vice Chairman. The replacement of chief secretary following the replacement of his boss is only a common phenomenon in China's personnel matters.

The transfer of Wang Renzhong [3769 0117 6850] from NPC Vice Chairman to CPPCC Vice Chairman, as we have heard, was based on considerations of personal relations. He has for a long time worked in Central China and developed deep personal relations with Li Xiannian.

Now, as chairman of CPPCC after his semiretirement, Li Xiannian needs a strong assistant, and Wang Renzhong after his transfer is expected to play a more active role in the CPPCC.

**"Older Sisters" Protest**

Chen Muhua [7115 1970 5478] and Qian Zhengying [6929 2973 5391] were among the few top-level CPC leaders. There is an interesting story about their transfer to leading posts in the NPC and CPPCC respectively. According to the original plan, Chen Muhua was to take up the post of vice chairman of the CPPCC National Committee after leaving the Politburo and the People's Bank of China. After the 13th CPC Congress, however, women had strong feelings against the absence of female party members in the leading organs, and some "Older Sisters" in the party even protested indignantly. Therefore, the higher authorities decided to take some remedial action, and Chen Muhua became vice chairman of the NPC instead of the CPPCC. However, the leading body of the CPPCC National Committee also needed some female cadre. That was why at the last minute, the name of Qian Zhengying, who was soon to leave the post of Minister of Water Resources and Electric Power, was added to the list of vice chairmen of the CPPCC National Committee.

Although Hu Sheng [5170 4939], president of the Chinese Academy of Social Sciences and vice chairman of the Hong Kong Basic Law Drafting Committee, is still holding the former title, he is rarely involved in the actual work of the academy because of his age. He was therefore assigned to the CPPCC, where intellectuals are concentrated, as vice chairman to strengthen the link between the party and the nonparty intellectuals. Yan Mingfu [7051 2494 1788], now secretary of CPC Central Committee and director of United Front Work Department, occupies an important position in dealing with Taiwan and has to make friends with a wide range of people. His appointment as vice chairman of the CPPCC National Committee is only natural in view of his aptitude for the work. This high-ranking party member, not yet 60, is expected to play a very active role in the future.

**Delicate Situation in Disposition of Nonparty Persons**

Many complex factors had to be considered in assigning CPC cadres to the NPC and CPPCC leading bodies. Even more delicate is the situation in the disposition of nonparty persons. This task is more difficult in practice.

Although the other parties and groups cooperating with the CPC are by no means powerful, their membership is considerable, and even more so, if the nonparty members abroad, especially those with some influence in Taiwan, are taken into account. However, the number of leading positions in the state are limited, and it is difficult to make everyone happy.

There are three new nonparty vice chairmen of the NPC Standing Committee. Two of them are Fei Xiaotong [6316 1321 6639] of the China Democratic League and Lei Jieqiong [7191 3381 8825] of the China Democratic National Construction Association, and former vice-chairman of the CPPCC National Committee. They replaced Chu Tunan [2806 0956 0589] and Ye Shengtao [5509 5110 7118] of the same parties serving in the NPC leading body. The third is Sun Qimeng [1327 6386 1322], replacing Hu Juewen [5170 0628 2429], leader of the same party (China Democratic National Construction Association).

Even more special considerations were given persons of other parties in organizing the leading groups of the CPPCC National Committee which performs an important functions on the United Front. Qu Wu [1448 2976] and Qian Changzhao [6929 2490 3564], the two gods of longevity of the Kuomintang Revolutionary Committee, stayed on for another term. Fei Xiaotong of China Democratic League was transferred to the NPC Standing Committee, and Su Buqing [5685 2975 7230] filled the vacancy, while Qian Weichang [6929 0251 7022] stayed on. Sun Xiaocun [1327 2556 2625] of China Democratic National Construction Association was newly admitted while Hu Ziang [5170 1311 2491] and Liu Jingji [0491 7231 1015] remained. Lei Jieqiong of China Association for Promoting Democracy was transferred to the NPC Standing Committee, but Zhao Puchu remained. A new slot was specially created for Lu Jiaxi [4151 0857 6932] of the Chinese Peasants and Workers Democratic Party, while Zhou Peiyuan [0719 1014 3293] of the Jiu San Society remained. Furthermore, the retention of Miao Yuntai [4927 7189 0669] and Deng Zhaoxiang [6744 0340 4382] and the admission of Cheng Siyuan [4453 1835 6678], all being nonparty persons, are obviously out of considerations for the work required in dealing with Taiwan.

CPC has also intentionally vacated some posts to accommodate nonparty persons. The following eight CPC members have left their posts as CPPCC vice-chairmen: Liu Lantao [0491 3482 3447], Lu Dingyi [7120 1353 0001], Cheng Zihua [4453 1311 5478], Yang Chengwu, Chen Zaidao, Lu Zhengcao, Bao Erhan [0545 1422 3352], and Wang Feng [3076 6912]. According to the original plan at the 13th CPC Congress, Yang Chengwu, Chen Zaidao, and Lu Zhengcao were to stay on. Later, out of consideration for nonparty persons, these posts were finally vacated in March this year..

#### **Nonparty Persons Unwilling To Be Lonely in Their Advanced Years**

There is one source of headaches for the higher CPC authorities in the appointment of nonparty persons. Most of the democratic parties and the well-known nonparty persons had been active on the political stage in cooperating with the CPC before it came to power. For more than 20 years, from the late 1950's to the 3d Plenary Session of 11th CPC Central Committee, these

people were politically ignored, and some suffered untold misery from wanton attacks. Therefore, whether they could hold leading posts in the state apparatus was regarded as a criterion for the evaluation of their political life. Some of them, despite their senility, are still unwilling to lead a quiet life. The CPC is indebted to them and cannot help but respect their wishes. Therefore, when deciding to enforce the system of retirement for cadres, the retirement age applied only to CPC members, but remains flexible for influential nonparty persons holding leading posts.

That is why in both the NPC Standing Committee and the CPPCC National Committee, there are many leaders in their advanced years. The ageing of these two organs is very serious! In fact, this ageing process will affect the functions of the NPC and the CPPCC in the future and has been constantly criticized abroad.

#### **Further Ageing of NPC Leadership**

Reviewing the First Session of the Sixth NPC in 1983, we will see that besides Peng Zheng as chairman, the following 20 persons were elected vice chairmen of its Standing Committee: Chen Pixian [7115 0012 7359], Wei Guoqing [7279 0948 3237], Geng Biao [5105 7374], Hu Juewen, Xu Deheng [6079 1795 3801], Peng Chong, Wang Renzhong, Shi Liang [0670 5328], Zhu Xuefan [2612 1331 5400], Ngapoi Ngawang Jigme [7093 3099 7093 2489 2516 5019], Banqen [3803 4407], Seypidin [6357 4395 7844], Zhou Gucheng [0719 6253 1004], Yan Jici [0917 3444 1964], Hu Yuzhi [5170 1937 0037], Rong Yiren [2837 3015 0088], Ye Fei [5509 7378], Liao Hansheng [1675 3354 3932], Han Xianchu [7281 0341 2806], and Huang Hua [7806 5478]. The average age of this leading body at that time was 73.6 years.

During the 5-year term, three of these vice-chairmen, namely, Shi Liang, Hu Yuzhi, and Han Xianchu, died. Two of them were replaced by Chu Tunan and Ye Shengtao. However, Ye Shengtao also died before his term of office expired. Besides the questions of their efficiency in routine work and their adaptability to the current situation, we can see from this fact alone the danger of ageing in this leadership organ.

According to China's Constitution, the NPC is the highest organ of state power, and in the very important position of exercising the legislative power. The chairman and vice-chairmen of the NPC Standing Committee are by no means honorary titles. Although their routine duties are not so numerous as those of State Council members, they still have many real duties to perform, particularly because of the decision of the 13th CPC Congress to "Improve a number of systems relating to socialist democracy," the most important part of which is to strengthen the work of legislation and supervision through law. This decision is making higher demands on the chairman and vice-chairmen. To have younger people in the leading body is obviously an urgent need of the moment.

How is the situation in the new term? Wan Li, the new chairman is (born in 1916) now aged 72, 9 years younger than Peng Zhen (born in 1902) when the latter took office. The choice of Wan Li, therefore, is compatible with the need for younger people. Seven vice-chairmen of the previous term have left their posts. They are Chen Pixian, Geng Biao, Hu Juewen, Xu Deheng, Wang Renzhong, Huang Hua, and Chu Tunan. Among them, Xu Deheng (born in 1890), Hu Juewen (born in 1895), and Chu Tunan (born in 1900), are the three gods of longevity. However, three octogenarians, namely, Zhou Gucheng (born in 1898) Yan Jici (born in 1900) and Zhu Xuefan, (born in 1898), still remain. Among the new vice chairman, Ulanfu and Lei Jieqiong are already over 80. The average age of the new NPC leading body members is now 73.7, even higher than before!

#### **A Group of Old People in CPPCC Leading Body**

The problem of ageing in the CPPCC National Committee is no less serious than in the NPC Standing Committee.

At the First Session of the Sixth CPPCC National Committee held 5 years ago, Deng Yingzhao was elected chairman, and the following 29 were elected vice-chairmen: Yang Jingren [2799 7323 0088], Liu Lantao, Lu Dingyi, Cheng Zihua, Kang Keqing [1660 0344 3237], Ji Fang [1323 2455], Zhuang Xiquan [5445 1583 2123], Pagbalha [1584 1572 2139], Hu Ziang, Wang Kunlun [3769 2492 0178], Qian Changzhao, Dong Qiwu [5516 0366 2979], Tao Zhiyue [7118 1492 1471], Zhou Shutao [0717 0647 1718], Yang Chengwu, Xiao Hua [5135 5478], Chen Zaidao, Lu Zhengcao, Zhou Jianren [0719 1696 0086], Zhou Peiyuan, Bao Erhan, Miao Yuntai, Wang Guangying [3769 0342 5391], Deng Zhaoxiang, Fei Xiaotong, Zhao Puchu, Ye Shengtao, Qu Wu, and Ba Jin [1572 6855]. The average age in the leading body then was nearly 80, or 79.3 to be exact. The following names were later added on different occasions: Ma Wenrui [7456 2429 3843], Mao Yisheng [5403 0110 0581], Liu Jingji, Hua Luogeng [5478 5012 1649], Wang Enmao [3769 1869 5399], Qian Xuesen [6929 1331 2773], Lei Jieqiong, Wang Feng, and Qian Weichang. The majority of them are old people.

During these 5 years, the following vice-chairmen died while still holding their posts: Ji Fang, Wang Kunlun, Zhou Shutao, Xiao Hua, Zhou Jianren, Hua Luogeng, and Ye Shengtao who was later transferred to the NPC Standing Committee. The death rate in the leading body was appalling.

What change has occurred in the age structure of the leading body as a result of the transition from the old to the new? President Li Xiannian is now 79, about the same age of Deng Yingzhao (born in 1904) at the time she took office. Fourteen vice-chairman of the previous term did not stay on, and four of them—Zhuang Xiquan (1888) Tao Zhiyue (1892), Mao Yisheng (1896), and Dong Qiwu (1899)—were born in the previous century.

Their retirement is obviously a big help in bringing down the average age. However, among those staying on, there are Miao Yuntai (1894), Hu Ziang (1897) Qu Wu (1898) and Qian Changzhao (1899), also born in the previous century. There are in addition five others who are octogenarians: Zhou Peiyuan (born in 1902), Deng Zhaoxiang (born in 1902), Liu Jingji (born in 1902), Ba Jin (born in 1904), and Zhao Puchu (born in 1905). Three out of the 11 new vice-chairman are also octogenarians. They are Sun Xiaocun (born in 1906), Su Buqing (born in 1907), and Cheng Siyuan (born in 1908). Thus among the 28 vice-chairmen in this term, 20 of them are in their advanced years, and the average age in the entire leading body is still as high as 75.8.

#### **Public Views and Uneasiness in Mainland China**

Chinese people are taking a very serious view of the ageing NPC and CPPCC leadership. Many people in Beijing pointed out that those old-timers still holding important posts have contributed a great deal to the state, and should be respected. As to whether they can continue to shoulder their heavy burden in the next 5 years, they are not so confident.

When the NPC nominated the members of its seven special committees, Deputy Huang Shunxing [7806 7311 5281] of Taiwan Province voiced his disagreement with the appointment of Zhou Gucheng, 89 years old, as chairman of Education, Science, Culture, and Public Health Committee. His motion won loud applause. The result of voting by a show of hands was 38 against and 69 abstentions. This result caused widespread social repercussions reflecting the Chinese people's uneasiness with the over-ageing of their leaders. Yang Shangkun, the new president, (born in 1907) is already 81, and Wang Zhen [3769 7201], the vice president (born in 1908) is already 80. Compared with their predecessors Li Xiannian (born in 1909) and Ulanhu (born in 1906) in 1983 when they took office, the new president and new vice president are older by 7 and 3 years respectively. Yet their choice was made after careful considerations and repeated deliberations at the 13th CPC Congress. KUANG CHIAO CHING revealed 4 months ago that Deng Xiaoping specially mentioned the need for old people with long experiences to be president and vice president. However, as we understand, people both inside and outside the party had their reservations with Deng Xiaoping's opinion. They believed that if the president had to be an old person with much experience, a younger person should be chosen as vice president. If both the president and the vice president are already 80 or of about the same age, this can never be the ideal arrangement.

#### **Special Arrangement for the Leadership Structure of the Military Commission**

Deng Xiaoping who no longer holds any leading post in the party or the state is the Military Commission's chairman; Zhao Ziyang, the CPC General Secretary, is the first vice-chairman; and Yang Shangkun, the state

president, is the vice-chairman. KUANG CHIAO CHING carried a report on the details in its November 1987 issue. However, we have heard that during the 7th NPC and even the 2d Plenary Session of the 13th CPC Central Committee, some people suggested that the legal effects of this unconventional and extraordinary practice deserve to be discussed.

#### **More Extensive Changes in the State Council's Leadership**

Instead of the acting premier, Li Peng has formally taken over the seat vacated by Zhao Ziyang. Among the former vice premiers, Yilin [1202 0181 2651] and Tian Jiyun [3944 4764 0061] remain for another term, while Wan Li and Qiao Shi [0829 4258] have been transferred to new posts. Only one of these vacancies is filled by State Councillor Wu Xueqian [0702 1331 6197].

Among the former 10 State Councillors, only 2—Wang Bingqian [3769 0014 0051] in charge of finance, and Song Jian [1345 0256] in charge of science and technology—remain for another term, while the other 8, namely, Fang Yi, Gu Mu, Kang Shien [1660 0013 1869], Chen Muhua, Ji Pengfei [1213 7720 7378], Zhang Jingfu [1728 0513 1133], Zhang Aiping [1728 1937 5493], and Song Ping [1345 1627], have left the State Council. The new State Councillors are Li Tieying, Qin Jiwei [4440 1015 0251], Wang Fang [3769 5362], Zou Jiahua, Li Guixian, Chen Xitong [7115 1585 0681], and Chen Junsheng, altogether seven of them. With the exception of Qin Jiwei, most of the others belong to the "young and vigorous group."

Among the new members of the State Council leading body, Li Tieying was the one to take charge of education; Qin Jiwei, national defense; Zou Jiahua, machine-building industry; and Chen Junsheng, the State Council's internal affairs. All these arrangements were made in advance. We have heard that their appointment as vice premiers had been considered 2 or 3 months ago. Later, in view of the unfavorable effects of an excessive number of vice premiers on the streamlining of the ministries, commissions, and local organs, it was decided that these persons join the leadership in the capacity of State Councillors.

After the departure of Qiao Shi, the State Council was in need of some one to take charge of political and legal matters. Wang Fang [3769 5364], 63 years old, was chosen for this work. The rumor that Zhang Jingfu would take over from Chen Muhua the People's Bank of China was rife for some time. Later, it was felt that he was a little too old and that a younger person should be found. Li Guixian is about 50, formerly working in Liaoning Province, and later transferred to Anhui to replace Huang Huang [7806 4337] as the provincial party committee secretary. He is courageous in upholding principles. Early this year, he sharply criticized some old cadres for being office-seekers. The publication of his

comments by RENMIN RIBAO caused a national sensation, and was welcomed by the higher authorities. There is a popular belief in Mainland China that this had something to do with his getting an important job. Chen Xitong's promotion to the post of State Councillor was attributed to the close relationship between Beijing Municipality and the central organs. For various reasons, anyone with the title of mayor alone would have difficulty with his duty performance in the national capital. The appointment of these of these three persons decided not long ago can be called a freshly made arrangement.

#### **Old People Politics Not To Be Changed Hastily**

If we will take a comprehensive view of the new list of principal state leaders in China, we will understand that its preparation was not without good reason. The personnel dispositions made in the 13th CPC Congress seems to show the tolerance of aging in certain organs as a condition for having younger persons in those organs with heavy and important duties. This can hardly be a satisfactory arrangement. However, proceeding from the realities in mainland China, some compromise or compensation is necessary. Therefore, the present arrangement seems to be fairly appropriate. As I have heard, when Deng Xiaoping was talking about the policy of having younger people, he on the one hand stress the need for unswerving efforts in this direction and, on the other, pointed out that it would take 10 to 50 years to truly accomplish this purpose. To all appearances, old-people's politics has a solid historical foundation and also involves the personal interests of powerful persons. This situation cannot be hastily changed.

#### **Five Major Characteristics Stressed by the Authorities**

In the disposition of these principal state leaders, I have learned through my interviews in Beijing that the higher authorities recently held an important meeting to report on the current situation with particular reference to the following characteristics:

1. The president and vice president chosen command high respect and have fairly strong influence at home and abroad.
2. The structure of the NPC leading organ with a wide representation is helpful in strengthening democracy and establishing a legal system.
3. Leading members of the State Council are all in the prime of life and are progressive and practical. With their personal qualities and the group structure, they are qualified for the task of ruling the country and managing the government.
4. The Military Commission leaders are headed by Deng Xiaoping who enjoys the highest national prestige. The assistance he has from the party general secretary and the state president is of great strategic significance.

5. The CPPCC National Committee, as a leadership organ, includes people of various parties and groups as well as nonparty celebrities. This is compatible with the need to strengthen and expand the unity of various social strata throughout the country.

If we take a pragmatic instead of an idealistic attitude toward the list of China's newly elected principal leaders, we will find that the personnel disposition can only be what it now is! However, it is obvious that if the problem

of ageing is not solved and people are not suitably assigned according to established standards, the situation will be very serious. What the people at home and abroad hope is that China will conduct a more serious reform in this direction in order to further improve the system of personnel disposition and the framework of administration.

9411

## NATIONAL AFFAIRS, POLICY

### Country's Mid-Phase Economic Restructuring Outlined

40060274 Chongqing GAIGE [REFORM] in Chinese  
No 2, 10 Mar 88 pp 41-47

[Article by the "Outline of Structural Reforms" research project group of the Chinese Academy of Social Sciences: "Outline of China's Mid-phase Economic Structural Reforms (Drafted in November 1987)"]

[Text] How should we proceed with the reforms in the next 8 years? What ideological and macroeconomic policy guidance should we follow? We maintain that we should insist on stabilizing the economy, return to the macroeconomic policy guidance to create a better economic environment, move in measured steps in the first 3 years but faster in the next 5 years, wait for opportunities while maintaining stability to step up the reforms in a coordinated way in the enterprise, market, and macroeconomic-control mechanisms, and gradually advance toward the goal of building a well-developed and properly functioning planned commodity economy.

### The Current Situation and Our Way of Thinking

Why is it necessary to base our planning for the next phase of reforms on the principle of "advance while maintaining stability?"

Because hidden in our economy is the danger of a special form of "stagnation." Judging by the index of industrial output alone, ours is not a stagnant economy, but a rapidly growing economy. In the past few years, China's industrial growth has far exceeded the targets set by the original plans.

However, while industry grows at a high rate, the following problems have also developed.

First, in the past 3 years, agricultural production has been slow in growing, and grain output has never again reached the 1984 level. Low grain output has adversely affected the animal industry. In the meantime, grain and meat consumption has increased at an unusually high rate, which only aggravated the shortages of grain, meat, eggs, and sugar, the four major kinds of staple and nonstaple food supplies. Thus, we are again faced with the problem of imbalance in economic development with agriculture lagging behind industry.

Second, not much improvement has been made in industrial efficiency. Growth in industrial output is more in name than in substance. The seemingly high growth rate of industrial output value is actually inflated by low-quality products and price rises. Moreover, compared with the early phase of reform, the structural changes in industrial production have not produced the expected results in the last 2 years or so. Between 1981 and 1986,

China's total social product grew at an average annual rate of 10.8 percent, but total investment in fixed assets rose at an average annual rate of 16.7 percent.

Third, the double-digit inflation for several years running has had a negative impact on the development and reform environment, increased the difficulty and resistance to reforms, and caused some social shocks and anti-reform feelings. Price rises have meant a decline in real income for a considerable number of people. The wave after wave of price rises are caused by inflation. Between 1978 and 1986, currency issue increased at an average annual rate of 21.5 percent, while the total product of society rose at an average annual rate of only 10.3 percent. The general retail price index rose at an average annual rate of 3.5 percent. Currency issue has grown at a rate way above the generally acceptable 13-15 percent. Moreover, the excess currency in circulation has not been absorbed completely by price rises, and the inflationary pressure remains quite strong.

Attempts have been made in the past few years to slow down the excessively rapid economic expansion. However, the economy took off again each time before a "soft landing" could be achieved, and the efforts to curb excessive economic growth produced scanty results. In the meantime, the financial deficit and foreign debt burdens have grown. At present, the surging demands have spread from enterprises and families to government departments. The belt-tightening policy introduced by the central government in early 1987 has not worked. Except for a few enterprises whose demands for investment funds were curtailed somewhat, little has been done in checking the rapidly increasing excessive demands. The group consumption funds set up by government departments at all levels and government-run companies, which come directly from the national coffers, are a problem that is getting worse. The amount of consumer goods bought by social groups in China from January through October 1987 was 20.2 percent more than in the same period a year ago (consumer goods bought by the people increased by 16.5 percent over the same period), increasing faster than the growth of commodity supplies. The tight financing and credit policy adopted by the central government in September 1987 has produced noticeable results, but the problem is not solved yet. Moreover, we are approaching a peak in debt payments. By 1990, payments of principal and interest on domestic and foreign debts will total more than 20 billion yuan, which will add heavily to China's financial burden.

The persisting situation of demand outstripping supply has also adversely affected the economic reforms by making it impossible to coordinate the reform of the enterprises with the reform of the price system and the formation of a competitive market. As a result, the market is slow in developing, and the price reform has stalled. All this has put a damper on the reform of the

enterprises and prevented them from becoming commodity producers and dealers with sole responsibility for their own profits and losses.

In short, we are faced with a situation which has improved somewhat but is still quite grim. In view of the situation, we must remain cool-headed and act properly. In making a blueprint for the next phase of reforms, we must not try to rush things. The macroeconomic policy guidance, on which reform measures are to be based, must be readjusted and corrected continuously.

In view of the previously described economic situation, we hold that the guiding principle for the next phase of reforms should be advance while maintaining stability. We must stabilize the economy and bring inflation under control so that the economy will develop steadily and in a coordinated way. We must also step up the structural reforms.

Economic stability should be a long-term policy during China's reforms. In an unstable and fluctuating economic situation, it is hardly possible to achieve economic growth, and it is unlikely that any comprehensive and coordinated reform measures can be implemented on schedule. In the present situation, strong control and comprehensive readjustment measures, that is, effective belt-tightening policies, are called for to stabilize the economy and improve the environment. This environmental improvement will take about 2 to 3 years, starting from now.

For the near future, efforts to stabilize the economy and improve the environment should achieve three goals: first, to speed up the growth of agricultural production, close the gap between agricultural and industrial output, and correct the imbalance in economic development; second, to control the rate of industrial growth, bringing it down to, say, 7-8 percent, and readjust the production structure to achieve an appropriate proportional relationship between industry and the other sectors and between the raw materials industries and processing industries; and third, to bring inflation under control and achieve basic price stability (keep annual price rises at about 3 percent). To achieve these goals, we should start from strengthening control over demand and improving management of supply.

It should be stressed that stabilizing the economy and improving the environment does not mean suspending the reforms, much less returning to the beaten track of "centralization." The reforms should be consolidated and digested on the one hand, and expanded and intensified on the other. However, expansion and intensification should not become blind or radical. By moving at a slower pace now, we can consolidate and digest the results achieved previously and build up momentum for the next phase of reforms.

### Reform Tasks for 1988-1990

The general principle for reform and development in the next 8 years is to "advance while maintaining stability." A stage-by-stage strategy is also needed. We think that the first 3 years should be a stabilizing period, during which reforms should move in measured steps with the emphasis on stability, and that the next 5 years should be an advancing period, during which reforms should be carried out in bigger strides with the emphasis on speed. After that, we should try to fundamentally change the system in another 5 to 8 years.

The major task for the 3-year stabilizing period is to modify the macroeconomic policy guidance, improve the environment, bring inflation under control (keep price rises at about 3 percent), curtail demands, improve regulatory and control methods and supply management, readjust the economic structure, and create better conditions for further reforms at a quicker pace in the next 5 years. At the same time we should intensify the current reforms and through them achieve economic stability. The following are things which need to be done.

#### 1. Speed up the Land Reform

At present, grain production lacks momentum, and yield is unstable. The major problem is the chaotic land management and use system—confusion about land rights, scattered management, primitive ways of production, and the lack of the advantage of scale and technology. It is necessary to speed up the land reform: A.) It should be made clear that land is ultimately owned by the state. The peasants' right to long-term land use should be guaranteed (no change in 15 to 20 years), and they should be permitted to transfer their land-use right to others or pass it on to their offsprings. A new land lease system should be established, under which peasants pay rent to the state for the use of land. To rent land, peasants must sign long-term land use and maintenance contracts with the state. B.) The state should indirectly encourage peasants to gradually switch to relatively centralized land management, while permitting scattered individual management and relatively centralized management of land to coexist. Centralized management of land can take the form of collective farms, jointly owned farms, or family farms. C.) A system governing land acquisition should be set up. The taking of land for nonagricultural uses should be prohibited by the land law. Except for land needed by peasants for their own housing, all land occupied must be paid for. Peasants should pay land rents, and urban land users should pay property taxes at fairly high rates. Implementation of these reforms will clarify land rights and give peasants greater security in land use.

#### 2. Step up the Reform of Town and Township Enterprises

Some town and township enterprises, now owned by town and township governments, should be gradually changed into other forms of ownerships. They can be contracted, leased, or sold to collectives or individuals, and they can also be turned into joint-stock or cooperative enterprises, the latter being the preferred choices. However, this does not mean that the assets of these town and township enterprises should be evenly distributed among the peasants. These reforms are essential for improving the economic performance of the town and township enterprises.

### 3. Broaden the Reform of Urban State-owned Enterprises

Small state-owned enterprises can continue to be contracted, leased, or sold to collectives or individuals, but appropriate macroeconomic regulatory measures should be adopted so that they can operate in a rational way and compete with others on an equal basis. Large and medium-sized state-owned enterprises should continue to implement and improve the contract management responsibility system, but competition should be introduced into the contracting process. The interests of the state as the owner must be guaranteed. The large and medium-sized state-owned enterprises should be gradually turned into stock companies, but the transition should not be rushed during this period. At the same time, in the process of standardizing business practices, it is necessary to introduce other supporting reforms such as reforms in taxation, profit delivery, enterprise management, and so forth. It should be emphasized that in perfecting the contract system, special attention should be paid to guaranteeing steadily increasing revenues for the state, preventing excessive investment and wage increases, guarding against enterprises making excessive profits by hiking prices, and making sure that the goal of stabilizing the economy is not compromised.

In this period, reforms in the decision-making system of enterprises can be carried out more thoroughly. A.) The separation of party from government and government from enterprise should be quickened. B.) Instead of being appointed by higher authorities, factory directors should be chosen through competitive bidding or election by workers. C.) The director responsibility system and the director's decision-making power should be put into effect.

### 4. Develop the Markets in an Appropriate Way

In this period, stability should be maintained in the consumer goods market. Grain prices should not be decontrolled. Grain purchasing prices should be increased to a suitable degree. At the same time, the price structure of grain used for industrial and other purposes, except for food, should be reformed on an experimental basis in some areas. But it is too early to decontrol the grain market completely. The selling prices of food grain in particular must remain stable. The commercialization of housing and rental reform can be

speeded up somewhat in areas based on experiments conducted in several cities. The prices of some capital goods which have a roughly balanced supply and demand (mainly intermediate and end products) can be decontrolled. Some structural readjustments can be made on the price of money, or interests, although decontrol is out of the question in this stage. This is particularly true with exchange rates. Short-term capital, stock, and securities markets can be set up in some areas on an experimental basis, but no premature moves should be attempted. A labor market can be developed vigorously, except for labor under state control or unified state distribution. For labor under unified state distribution, some freedom of movement may be permitted. The rural labor market may be developed more rapidly.

### 5. Speed up Reform Experiments

While stabilizing the macroeconomy, checking inflation, and improving the "general climate" for reforms, pilot reform projects should be stepped up in cities (such as Chongqing, Shenyang, Wuhan, Changzhou, Shashi, etc.) and provinces (such as Guangdong and Hainan) in order to coordinate and speed up their reforms as a whole, expand the role of the market mechanism, and promote the development of the market system. This will enable the cities and provinces to release more energy for reforms, achieve and demonstrate greater results, and provide examples and experiences for the whole country to carry out reforms in all fields in a coordinated way and at a faster pace in the future.

### 6. Speed up the Reform of the Regulatory and Control Mechanism

Judging by the need to improve the environment and stabilize the economy, the emphasis in this stage should be placed on the reform of the macroeconomic regulatory and control mechanism. This is not only because the reform of the macroeconomic regulatory and control mechanism will cost no money and will alleviate the overall economic strains, but because to a very large extent the current effort to develop a new enterprise system is hampered by the lagging regulatory and control mechanism. If the reform of the regulatory and control mechanism can be quickened during this period, a good foundation will be laid for the coordinated reforms in three major areas in the next stage.

In this stage, the following things can be done in reforming the macroeconomic regulatory and control mechanism:

A. The traditional finance-banking system should be changed, and an independent money supply control system should be set up under the central bank. The central bank should have greater independence in controlling the money supply. The practice for the central government to meet deficits by overdrawing directly from the central bank should be prohibited by the

currency law. The National People's Congress should exercise its power to control and supervise currency issue. The central bank must strictly follow currency policies and not allow itself to become the cash box for government organizations. A structural solution should be found to plug the loopholes caused by the blind expansion of credit within the banking system. The preferential policies adopted by the central and local governments and ministries should not interfere with the actions of the currency control system.

B. The tax system should be reformed to bring into play the indirect controlling role of the tax lever in the economic process. The present tax system should be appraised, readjusted, and reformed, and on this basis a new national tax system should be quickly established. It is necessary to review the tax deductions and exemptions, distribute the tax burden on the basis of fairness, and follow the tax policy of treating everyone equally without discrimination; to examine the collection of individual income tax, enterprise income tax, appreciation tax, natural resources tax, and product tax and readjust the tax structure; and to strictly enforce the separation of taxes collected by the central and local authorities. One idea is for the central government to collect the natural resources tax and the income tax of state-owned enterprises capitalized with central government funds, the local governments to collect the individual income tax and the income tax of public-owned enterprises funded by local investment, and the central and local governments to share the consumption tax, product tax, business tax, and other taxes. Local governments have no right to exempt or change the rates of taxes to be collected by the central government. The tax reform can help regulate income distribution, production, and consumption and control the growth in income.

C. It is necessary to analyze and define government functions and control short-term government actions. In the process of economic regulation, the respective powers and functions of the government and the market should be clearly defined. As concerned parties in the national economy, the position of the state as owner and the enterprises as managers and how profits are to be distributed between them should be clearly spelled out. It is necessary to drastically simplify the government structure and reduce the number of government officials and staff members. It is necessary to readjust the government spending system, reduce expenditures, and change the group consumption system in government organizations. In order to reduce the redundant and overlapping controls over enterprises, it is necessary to clearly define the regulatory and control functions of the three levels of governments (central, provincial, and county and city levels). Consideration should also be given to forming an independent permanent three-in-one policy-making brain trust composed of central advisory committee members, specialists, and businessmen to guarantee the scientific process and continuity of government leadership and policy-making and avoid short-term macroeconomic decisions and actions.

## 7. Carry Out Other Supporting Reforms

Reforms in the material and commodity supply system should focus on government control organizations. Some experiments can be continued on state-run capital goods markets with a one-track price system. However, it will be difficult to develop this type of capital goods markets on a large scale during this period because of supply shortages. For the reform of the investment system, some experiments can be conducted on the establishment of investment funds and the bidding system. The formation of government investment companies at the central, provincial, city, and county levels may cause problems in the future. The company at the central level could become a centralization of investment power, and the rest could mean the revival of the governmental investment companies. A good alternative is probably the formation of interregional investment companies based on mutual interests and need for lateral ties. Pilot companies of this kind can be set up during this period. In the reform of the financial system, with the separation of tax revenues between the central and local governments, the amount of money borrowed this year by the central government from the localities can be used as the basis to determine the amount of taxes to be collected by the state in the next year. More important, the present expenditure system must be quickly readjusted and reformed. In the area of banking reforms, continued efforts should be made to expand the loan channels, add new financial tools, reform the interest-rate structure, and turn the specialized banks into business operations. Reforms in the foreign trade system should focus on the separation of powers between the central and local authorities. More relaxed policies can be experimented, but it is still too early for complete decontrol of foreign trade. In the 3-year stabilizing period, we must prevent foreign exchange from getting out of control.

## Reforms in the Next 5 Years (1990-1995)

The next 5 years is the crucial period for the change of the entire system. If in the first 3 years we can basically improve the environment, ease the strains on the market, and lay a good foundation for a macroeconomic regulatory and control mechanism centering on a currency control system, we will be prepared to proceed in bigger strides with reforms in the next 5 years. By that time, major steps can be taken toward the reform of the market-operating mechanism with the focus on price reform, the reform of the ownership system with the focus on turning the large and medium-sized state-owned enterprises into stock companies, and the third-stage rural reform with the focus on structural reforms. Our ideas are roughly as follows:

### 1. Change the "Two Track" Price System in Two Steps

People have offered many opinions on changing the "two track" price system. Some think that we should endure the brief "labor pains" and quickly change from the "two track" to a "one track" price system by letting

the markets take care of prices. Their thinking makes some sense, but is unrealistic. To achieve the goals of the mid-phase reforms, we have to solve the "two track" price problem and cannot keep putting it off. But it is dangerous to move too fast. The problem can only be solved after we have basically improved the environment and reduced the strains on the market. If the situation develops according to plans, price reform measures will be implemented in the last 5 of the next 8 years, and the "two track" problem can be basically solved then. The 5 years should again be divided into two parts. In the first 2 of the 5 years, we can decontrol the prices of capital goods which are in relatively adequate supply and have a ready market, prices of grain for industrial and other non-food purposes in some counties and small cities, and meat prices in some small and medium-sized cities. In the next 3 of the 5 years, the prices of major capital goods can be decontrolled so that the prices of 80 percent of capital goods will be regulated by the market, and the prices of grain for industrial and other non-food purposes can be decontrolled in large and medium-sized cities. Decontrol of meat prices in Beijing, Tianjin, Shanghai and other big cities must wait till new hog production bases are built and can meet major meat demands. The prices of food grain, especially in large and medium-sized cities, cannot be decontrolled during this phase, and the two-track price system and state subsidies will have to be continued.

## 2. Structure the Market System by Steps

During this phase, a giant stride will be made in structuring the market system. A.) A complete consumer goods market and a complete capital goods market, handling everything except food grain, state-monopolized goods and the most important capital goods, will be established in two stages. A price system based on market competition and regulated by overall quantities and state plans will begin to take shape. B.) Financial markets will develop quickly. We will set up not only short-term but long-term money markets, not only expand the proportion and scope of funds distributed by banks but set up stock and securities markets and develop lateral loan operations. However, the stock, securities, and long-term money markets can only take the first step in their development. The second step will have to wait until the Ninth 5-Year Plan. The same is true with the labor market. C.) A big step forward can be taken in the reform of the interest-rate structure. On the basis of readjustments made to the interest-rate structure in the first 3 years, we can decontrol interest rates, allow market interest rates to fluctuate with the guidance of state plans, and develop a mechanism using interest rates to regulate investments and savings. D.) A first step can be taken in reforming the foreign trade and exchange-rate system. Certain important wholly owned foreign enterprises, while under unified control of relevant Chinese government departments, should be given some independence in trade and in the use of foreign exchange. Exchange rates should also be allowed to fluctuate within planned limits. However, complete

decontrol of foreign trade operations and foreign exchange management is not recommended for this phase. Complete decontrol can become a reality during the Ninth 5-Year Plan. Generally speaking, foreign trade should be given fewer freedoms than domestic trade and subject to stronger state macroeconomic controls.

## 3. Turn Large and Medium-sized State Enterprises Into Stock Companies

If in the first 3 years their state-owned assets have been completely inventoried and evaluated, the value of output retained by them according to their contracts has increased to a specific level, and their non-state-owned assets and capital have grown to a specific amount; and if the stock ownership law and stock company law have been enacted and put into effect; then the conditions will be ripe for the large and medium-sized state enterprises to turn into stock companies. This can be accomplished first among the non-monopoly enterprises, mainly the medium-sized ones, and then among the monopoly enterprises, both large and medium-sized. At the same time, the monopoly enterprises should be helped to become more competitive. Of course, all the enterprises cannot be ordered to turn themselves into stock companies simultaneously. Their actual conditions must be taken into consideration, and the transition must be based on their own choice and accomplished step by step. The stock system can be varied in forms, and some enterprises may choose other forms of ownership. In the end, some enterprises will remain state- or government-owned, for example, the space industry, sophisticated scientific and technological enterprises, defense industries, large-scale mining of rare minerals, large oilfields, railroads, extra large power stations, postal and telecommunications services, and so forth. But even these enterprises can engage in diversified undertakings. Judging by the present conditions of the large and medium-sized state enterprises, it is possible to turn a part of them into stock companies during this phase. The rest of the transition will be completed during the Ninth 5-Year Plan, that is, by the end of the century.

## 4. Complete the Reform of the Macroeconomic Regulatory and Control Mechanism at a Higher Level

During this phase, major reforms should be carried out in the macroeconomic regulatory and control mechanism: A.) Government functions should be further systematized and written into law. B.) As investment decisions are delegated to enterprises, associations of enterprises, and investment companies and as a lot of planning activities (microeconomic investment, production, purchase and sales, and distribution planning) are being separated, the functions of the planning commissions should be changed radically—from formulating mainly mandatory plans to formulating mainly guidance plans. C.) As the prices and markets of materials and commodities are basically decontrolled, the functions of the materials and commodities commissions should be further readjusted and changed so that their main

responsibility will be to regulate market supplies. D.) As the role of the central bank in exercising independent and effective control of the macroeconomy is brought into full play, the government's control over the economy should be changed quickly from direct to indirect control.

### **The Goals of Mid-phase Reforms and the Emphases and Problems in the Two Stages**

The goals of reform set for the Eighth 5-Year Plan (1990-1995) are in fact also the main tasks of the 8-year mid-phase reforms. Specifically they include the following:

1. Except for the reforms in some large enterprises, the establishment of lateral investment companies among large- and medium-sized enterprises, and the development of enterprise job markets, which cannot be accomplished yet, all other major goals of enterprise reform will be achieved, and a new enterprise system will begin to take shape.

2. Except for food grain and labor, which will continue to have a two-track price system, and the most scarce resources, which will continue to be sold at state monopoly prices, commodity prices and cost of money (except exchange rates) will be basically completely decontrolled. The commodity markets will be fully developed. The development of the financial markets will be uneven. However, the framework of the market system will be basically established. Interest rates will begin to regulate the economy according to the laws of the market and play their role in guiding savings, investment, and consumption, particularly in regulating the total amount and structure of investment through savings and loans. A mechanism to regulate income distribution through tax rates will be formed.

3. The functions of governments will be made basically clear. The macroeconomic regulatory and control mechanism will begin the transition from direct administrative control to indirect control through the market. The scope and function of control through planning will be changing, and a regulatory and control system combining guidance planning with incomplete market regulation will begin to take shape. However, the ultimate goal of a regulatory and operational system in which "the state regulates the market, and the market guides enterprise" will not be reached at this time.

Thus, in the next 8 years reform on the three major levels of enterprise, market, and macroeconomic regulation and control will take a big, crucial, but not final, step forward. A really new, standard, and rational three-in-one model composed of the enterprise management mechanism, the market operational mechanism, and the government regulatory and control mechanism, that is, the Chinese model of commodity economy, will finally become a reality in the early part of the next century.

In the first 3 of the 8 years, the emphasis will be on rural reforms (including land and town and township enterprise reforms) and reforms in the macroeconomic regulatory and control mechanism. The problem is inflation. Unless this problem is solved, it will be difficult to achieve even the measured progress planned for this period in reforming the enterprise and market system and the functions of governments, and a good foundation cannot be laid for the big strides to be made in reforming the mechanisms of economic operations and the ownership relations in the next 5 years. Therefore, the key word for the first 3 years is stability.

In the next 5 years, the emphasis will be on completely changing the enterprise and market system, and the key lies in price reform and promotion of the stock system. The problem is coordination. During this period, attention must be paid to coordination not only between reform and development but among reforms. Without good coordination, reforms in the three major mechanisms of enterprises, markets, and macroeconomic regulation and control will not be properly linked. Therefore, during this period coordination should be the basis on which to plan for the introduction, promotion, and perfection of various reform measures.

Therefore, in both stages special attention should be paid to tactics and technique. We must neither advance rashly nor let good opportunities slip away. To introduce reform measures, we must wait for the right moment. For example, a price reform measure should not be introduced around holidays. Before introducing a reform measure, we must fully understand what possible consequences can be expected. We cannot cause shocks, and must not act recklessly.

We should be able to see that we have a good political and social environment to carry out the reforms in the next 8 years. From the highest levels to the grassroots, from the policy-makers at the top of the CPC Central Committee and the State Council to the ordinary people in rural and urban areas, everyone is full of enthusiasm and confidence and united in thinking and understanding. This is our basic insurance for success in stabilizing the economy and intensifying the reforms in the next 8 years.

12802

## **FOREIGN TRADE, INVESTMENT**

### **MOFERT Official on Foreign Trade Reform**

40060236 Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 2, 27 Feb 88 pp 12-18

[Article by Zhou Xiaochuan [0719 1420 1557], Assistant to the Minister of Foreign Economic Relations and Trade: "Foreign Trade Reform Must Be Coordinated With Other Reforms"]

[Text]

### 1. Direction and Developmental Stages of Foreign Trade Reform

Foreign trade reform is a mammoth and complex piece of systems engineering. Before undertaking this task, we must clarify the direction and targeted model of foreign trade reform. We must also take care to achieve it in stages in accordance with the inherent principles of its progression. So far, though, there has been less than full discussion in the country of the targeted model of foreign trade reform and few substantive articles have appeared in the press. There is an acute need for us to elevate and intensify theoretical research in this area in the future.

After several years of practice, the direction of foreign trade reform in China has become increasingly clear, despite the large gap that still exists in terms of general theorizing and description. There is more and more of a public consensus in the following areas regarding the direction and targeted model of foreign trade reform:

- 1) China should give proper consideration to participating in the international division of labor and exploiting the nation's comparative advantages, which will help it further open itself to the outside world. Only if we courageously join the great international economic circle and actively participate in the world market exchange can we implement the strategic plan put forward at the 3d Plenum of the 12th CPC Central Committee: "utilize the two kinds of resources—domestic and foreign, and open up the two markets—domestic and foreign." The traditional notion that foreign trade merely "regulates shortages and surpluses" must be changed. The overemphasis on self-reliance and self-sufficiency is the ideological cornerstone for the "regulating surpluses and shortages" model. It points up a nation's low level of openness.
- 2) In foreign trade, we must not depend on a certain sector or a handful of companies only, but should fully mobilize the initiative of every segment and pay attention to certain essential coordinating moves. In particular, we need to delegate power extensively in the processing manufacturing industry and the import of technology and equipment, which will necessarily allow a certain degree of competition. Practice has proved the striking benefits of introducing market competition mechanisms in the export of manufacturing industry as far as product quality and product upgrading are concerned. Of course, in view of the protectionism raging worldwide, we do not want competition to prevail throughout the entire realm of foreign trade. In the case of certain sensitive bulk products and other resources, for instance, we should retain the state monopoly to an appropriate degree.
- 3) Foreign trade enterprises and production enterprises with the power to conduct foreign trade must go the commercial road. This suggests that the state must continue to delegate power to enterprises to enable the latter to really operate autonomously in accordance with the principle of being responsible for one's profits and

losses and gradually establish hard financial restraining mechanisms, instead of approaching the higher levels for help as soon as they run into difficulties. The operational power and scope of foreign-trade enterprises and various enterprises authorized to engage in foreign trade should be broadened steadily. We may try putting together comprehensive corporations based on the actual needs of the domestic and international markets, thus uniting domestic trade with international trade and trade mechanisms with financial mechanisms organically. In internationalizing foreign-trade enterprises, we must not follow the herd instinct. Nor is it a question of making an administrative decision for or against. Instead, we should take a case-by-case approach, depending on the qualifications of each enterprise and market need. Small enterprises well-suited to a single product or a narrow range of products can go in for specialization, while well-equipped large-scale enterprises may push for expansion, comprehensiveness, and internationalization.

- 4) We must utilize the two channels, foreign capital and special economic zones [SEZ's], to develop foreign trade. The utilization of foreign capital can solve the problem of state fund shortage and may promote our export drive directly and indirectly. China's SEZ's distinguish themselves as export-processing zones and are expected to serve as the "four windows" (to technology, management, knowledge, and foreign policy) and the two diffusion points (external and internal). Many contradictions exist between the zones and the interior at the moment, which must be resolved without delay, but that is no reason for us to waver in our policy to make the SEZ's an important link in the development of foreign trade.
- 5) While the integration of industry-trade, technology-trade, and import-export, which has been much stressed for years, has been widely accepted, little solid substantive progress has been achieved thus far. The major source of conflicts between industry and trade remains dissimilar financial interests leading to mutual isolation. Foreign-trade enterprises often complain that industrial enterprises cannot come up with standard products, while the latter complain that the lack of direct contact with the international market and explicit financial incentives prevent them from turning out popular, marketable goods. In the future, we should create a new system where foreign trade enterprises, industrial enterprises, and enterprises that supply industrial enterprises with raw materials have common interests. If we continue to use the old financial system, industry-trade integration will forever remain a problem we talk about.
- 6) On the import side, we must delegate power appropriately to enable the enterprises to gradually decide their own imports. We should reduce the share of imports purchased by the center administratively and increase the portion of imports purchased directly by microeconomic units based on market demand. Such changes will be consistent with China's present economic structural reform and development progress. In

the future, we must also slowly strengthen the function of economic levers such as tariffs and reduce administrative microeconomic decision-making and certain excessively protectionist measures.

7) In foreign trade work, we should move toward indirect guidance through macroeconomic policies. Accordingly, we should establish a set of economic regulatory tools, coordinated with one another but each doing its own job, which may be called a foreign trade regulatory system. In a fundamental way, this system will create an environment where foreign-trade enterprises and miscellaneous industrial enterprises engaged in foreign trade can assume responsibility for their profits and losses, operate independently, and compete on an equal footing. The system will also be a tangible way to realize China's development strategy and industrial policy.

Strictly speaking, the general direction of foreign trade reform described above does not amount to a targeted model as yet. A targeted model does not refer to a development direction, but to a system to be formed in the future that is relatively stable and with which each segment is coordinated over a relatively long period of time. If we can work out such a system for the future, it will help us further clarify the reform direction and course of transition. As far as ideological liberation is concerned, we have come a long way. But if we have a targeted model with which to look at problems, we will see that we are still rule-bound in some issues and not careful and strict enough in others.

As for how to draw up a long-range reform plan and carry it out step by step based on the generally-accepted direction described above, our inquiries in this area have been far from adequate thus far. When China first opened up to the outside world, "opening" was interpreted by the public to mean merely the importing of a modicum of foreign capital and technology and the strengthening of scientific and cultural exchanges. In reality, the most important aspect of the policy of opening to the outside world is foreign trade. In other words, the extent to which a nation is open to the outside world is contingent on the openness of its foreign trade and its level of development. If foreign trade accounts for a minuscule portion of its GNP, its trade potential remains structurally stunted and cannot be brought into full play. Internationally, then, it would still be regarded as a closed or semi-closed economy, not an open one. Because there has been little discussion in the country so far on the developmental stages of opening to the outside world and in order to inject life into this topic, I propose to take a look at China's foreign trade reform and the developmental stages of opening to the outside world from certain perspectives of developmental economics:

Ba Ge Wa Di [1572 2706 3907 5530] and Ke Lu Ge [0344 7627 2706] divide the gradual opening of a nation's foreign trade (otherwise known as foreign trade liberalization or foreign trade reform) into five stages. Their scheme is based on the experience of certain

developing nations and their terminology also differs somewhat from our own. What I propose to do here is to explain and express their theory in our language. It may not be very accurate but will probably help our discussion. The five stages are: 1) A stage featuring a high degree of administrative management and quantitative control (in the case of socialist countries, this may mean the stage of command planning. Command planning is both administrative and highly quantitative); 2) A stage when economic levers begin to be used to achieve elaborate control. Since prices and other elements have not been rationalized, the government cannot let enterprises make decisions on their own using only prices and profits signals. On the other hand, it must delegate power to enterprises and give them operational autonomy if it hopes to vitalize the economy. The government thus often ends up with no other choice than to regulate different products, localities, and enterprises individually. The inevitable upshot is very elaborate regulation and control methods. Moreover, in the transition from highly administrative control to regulation by economic mechanisms, unavoidable conflicts, along with loopholes, frequently appear between the two as they exist side by side. Regulation and control by the state and counter-regulation and counter-control by enterprises will exist for a long time to come, which, in turn, will compel the state to keep churning out new rules, regulations, and tools to improve the imperfectible system of economic levers and control in the transitional period in order to minimize its loopholes. Meanwhile, this economic system, which is long on microeconomic intervention, gives excessive power to administrative officials and is a good breeding ground for such problems as "abusing public office for private interests." To prevent corruption and bureaucratism, there is a continuous need to enact additional coordinated restraining policies and supervisory methods, which makes this kind of regulation more and more elaborate still. This stage has a distinct characteristic: the shift from quantitative control to the use of the law of value. In the past, administrative means such as the license system and quota management were used exclusively. Now they are gradually replaced by bidding and auctioning. The transfer of licenses is also allowed. 3) The stage in which exchange rates are rationalized. Exchange rates are going to play a bigger role, which, as far as a developing nation is concerned, means currency depreciation. (Its currency is still overvalued in Stage 2.) Many countries have resorted to this move because the government could no longer tolerate the endless chaos and bureaucratic phenomena characteristic of the stage of elaborate control. Of course, we cannot rule out that there may be cases where the government foresees what reform would bring and is prepared for it. Whether or not exchange rates can gradually replace elaborate control mechanisms depends to an extent on how closely domestic prices approximate international prices. Or it may depend on how determined the country is to use international market prices to remove domestic price distortions. 4) Economic and price mechanisms gradually replace unnecessary administrative tools, including the reduction of protectionism.

Tariffs and other economic tools of a price nature begin to play a dominant role. Foreign trade policies, finance policies, and an import and export drawback, among other things, begin to form the mainstream, replacing unnecessary administrative methods to the greatest extent. 5) A stage where currencies are freely exchanged. Foreign trade becomes even more open. The national currency can be fully exchanged for international currencies in regular items in the balance of payments.

The above scheme of dividing the process into stages is not necessarily applicable to China. Still there is no harm in using it as reference. According to this crude scheme, China's foreign trade system is still somewhere between Stages 1 and 2 at the moment. During the past few years, while administrative quantitative control on foreign trade was on the decline, foreign trade remained bogged down in Stage 1. Judging from the need for Stage 2, it is appropriate for China to utilize economic levers to achieve elaborate control at the moment. Right now, we need to delegate foreign trade power to enterprises even as we are still trying to straighten out the price and tax systems. Thus it would be difficult to find simple methods that can readily tackle the various conflicts between macroeconomic control and microeconomic vitalization. Some people have asked whether China can skip Stage 2 and proceed straight to Stage 3, that is, directly rely on a rational exchange rate to bring about the further delegation of power to enterprises. This is a bold experiment, an area where we should step up theoretical research. In short, the developmental stages of foreign trade reform is an attractive topic that has not been discussed in depth.

## **2. Relations Between Decentralized Operations and Illegitimate Competition**

This issue has plagued foreign trade reform in China for years and was responsible for its structural setback to a certain extent. Whether or not foreign trade reform can proceed smoothly in the future will depend to a large degree on this relationship. To clarify the issue of competition in foreign trade, we need to review and reflect on the course of foreign trade reform in China in recent years.

On a theoretical level, some preconditions must be met before market regulation and competitive mechanisms can play a positive role. First, a rational price system is needed to enable enterprises to make a reasonable, legitimate profit. Second, enterprises must have a hard or relatively hard financial restraint and use their own financial resources to compete. Third, the government must nurture a generally fair competitive environment. In the course of foreign trade reform in the past few years, China was not equipped to fully create such preconditions and has not even considered putting together this kind of accessory relationship. The inevitable outcome is varying degrees of illegitimate competition, with different major conflicts appearing in different stages. This has been called the "trilogy of illegitimate competition."

Around 1982, more and more Chinese enterprises began enjoying decision-making power in foreign trade. This gave rise to so-called internal competition, summed up at the time as "raising procurement prices at home, slashing prices abroad, letting an outflow of profits." To put an end to this phenomenon, the government decided in late 1983 not to enlarge the scope of power delegation. A much-debated issue in theoretical circles at the time was "What is the overall effect of delegating power to enterprises to run their business?" To put it differently, given increased procurement prices, price-slashing, and rising exports, has the overall economic return on foreign trade really improved or declined? Subsequent data show that despite some increases, some decreases, and some "more or less," the total volume of foreign trade did go up. Certainly, there were serious confusion and extensive losses, but different commodities fared differently. For some, this kind of competition did not necessarily mean an outflow of profits. What must also be looked at is the results of a quantitative analysis. For instance, if a slight drop in the sale price and a rise in procurement prices were accompanied by a substantial increase in exports and a marked increase in foreign exchange earned, that would be consistent with the general principles of the export drive. In contrast, when a big drop in sale prices went hand in hand with a fall in export volume, there had indeed been an "outflow of profits." In our analysis, we must establish a fairly strict quantitative cut-off point and not lump things together.

Power delegation during this period also dealt a heavy blow to domestic prices. Before the country was opened to the outside world, domestic price distortions mainly took the form of a slanted structure relative to the international market price system. In other words, Chinese manufactured goods were overpriced relative to international market prices and became increasingly so as the degree of processing went up. Chinese primary products and natural resources, on the other hand, were significantly underpriced. In the early days of power delegation, its impact on prices on the export side essentially manifested itself in sharply rising procurement prices for agricultural, native, and livestock products, exactly the kind of Chinese exports that were historically underpriced. This impact proved to be inflationary and the domestic price index went up. At the same time, as policy on the import side was liberalized, the amount of foreign exchange spent actually increased. Hence new pressure on various domestic industries to compete on price. Undeniably, this sort of pressure fueled the effort to improve domestic product quality and break into the international market. Meanwhile, however, some domestic products were destroyed for no good reason. Whether this kind of price disruption was appropriate was hotly debated at the time. Some people argued that if imports rose too sharply, domestic enterprises would not be able to withstand such intense competition. Not only would this disrupt domestic prices, but domestic industry would also be hit hard. The state was not adequately prepared ideologically either. Others believed that the lack of adequate ideological

preparation for the disruption caused by international market prices and the lack of sufficient appropriate measures had to do with the immaturity of the reform plan and ideological understanding; they could not be used as a basis to determine whether something was good or bad. Leaving aside this point, the overall effect of the disruption of domestic prices by international prices has been both positive and necessary. Judging from the direction of economic structural reform in China, we should gradually establish a fairly rational domestic price system which more or less coincides with the international price system. And the price disruption mentioned above exactly contributes to this kind of change. In other words, from the perspective of price reform, the price disruption was largely beneficial, whereas from the perspective of the old price system, it was basically destructive. Much of the losses suffered by the state in the course of delegation-induced competition were caused by poor reform planning.

"Part one of the trilogy" of illegitimate competition opened around 1982 and 1983 and lasted all the way to about 1985. Because of delegation, we suffered some losses resulting from illegitimate competition. On the other hand, exports increased. Rather passively, the country accepted the price disruption brought on by the international market, in the process correcting some long inequitable prices. For example, the underpricing of primary products and resources (such as some grain, oil, native, and livestock products) not subject to direct price-setting by the state effectively came to an end.

In "part two of the trilogy," the enterprise's responsibility for its own profits and losses and the rigidity of financial restraints became a vital condition for competition. Let us assume the price system is now largely sound. But if the financial restraint of some enterprises remains soft and they continue to rely on the higher level, then competition will stay disorderly and there would still be an "outflow of profits." In late 1984, there was an explosion of credit, investment, and consumption funds, which grew exceedingly fast. The state's foreign exchange reserves dipped precipitately. Hence the retrenchment and economic stabilization policies in the second half of 1985. The result was that it became a top economic priority in 1986 to export and earn foreign exchange, while the importance of lowering the cost of earning foreign exchange was downgraded. At the time, the financial restraint of some foreign enterprises remained quite soft. Hence the numerous instances of harmful competition in 1986 that exceeded cost restraints, such as those involving ramie and prawns. In view of this problem, people realized that the thoroughness with which enterprises are held responsible for their own profits and losses is an important condition for competition. Accordingly, the contracted management responsibility system was introduced extensively in foreign trade in 1987, a key temporary measure to stiffen enterprise financial restraint.

Having gone through and learned from parts one and two of the trilogy, we improved our work and the reform

plan. Regarding commodities whose domestic prices were still inequitable and where the possibility remained for mutual destruction, we have intensified quota and licensing management. We have also stiffened the financial restraint of some foreign trade enterprises with the contracted management responsibility system. But parts one and two alone could not resolve the conflict between delegation and illegitimate competition. What is also needed is part three, namely a time when conditions of competition are equalized. Differences in the percentage of foreign exchange retained, contracting conditions, and individual flexible policies, for instance, all contribute to an uneven playing field. In the future, our task is to gradually create a relatively level playing field, an even more daunting assignment as it involves coordination with structural reform in many areas and the question of how to handle the excessive imbalance inherited from history.

After the conditions of competition are taken care of, we also need to bring into line the procedures of internal competition in the case of certain products. One practical solution is to establish chambers of commerce for export, but the effectiveness of chambers of commerce is related to the extent of government-enterprise separation. How to diminish unnecessary administrative intervention and establish the chamber's genuine authority is another major topic on the foreign trade reform agenda for the future.

### 3. Some Controversies Over the Design and Research of Current Foreign Trade Reform Plans

Since February 1986, the conventional wisdom in foreign trade reform has been to sort out the financial relationship and enable foreign trade enterprises and export-oriented production enterprises to operate independently and be responsible for their own profits and losses through the establishment of a complete set of foreign trade regulatory mechanisms, which will lead to the delegation of further foreign trade power to all sorts of enterprises. As for the sequence of moves, there have been different ideas. When the foreign trade reform plan was under study in February 1986, we came up with the principle of "limited objectives, first create, then abolish." Subsequently a group was set up to study and design foreign trade reform and look into ways of coordinating China's banking, price, financial, and tax reforms with foreign trade reforms. The design philosophy at the time was to come to grips with the regulatory system first and make an effort to create sound financial conditions for enterprises so that they can achieve genuine responsibility for their profits and losses. The pace should be as cautious as possible. "Establish first, abolish later." Later, we also thought of speeding up foreign trade reform in this direction but since this piece of systems engineering required adequate time for preparation, we did not rush ahead with it. Here I want to mention several issues that were once hotly debated: 1) The effects of exchange rate adjustments on domestic prices; 2) Should exchange rates be adjusted, or should

the percentage of foreign exchange retained be increased? 3) Does foreign trade reform require a corresponding relaxation in the overall national economy? These issues influence policy formulation greatly.

In July 1986, China adjusted the renminbi's exchange rate to \$1:3.7 yuan, a move with vast impact on future foreign trade reform. It was much debated in China at the time. Some people argued against adjustment because of its enormous disruption of domestic price levels. Others thought that it would be more appropriate to adjust the exchange rate to above 3.7 yuan. Taiwan's past economic policy was cited in the course of the debate. Professor Chiang Sho-chieh [1728 4311 2638] pointed out at the time that changes in exchange rates would only cause changes in corresponding prices, that is, changes in the prices of tradeable goods relative to those of non-tradeable goods, but would not have notable effects on the overall price level. He called for raising the interest rates, loosening terms of credit, devaluing the Taiwan currency, and liberalizing trade. In the main, these suggestions were adopted by the Taiwan authorities. Subsequent events prove that Chiang Sho-chieh's viewpoint was correct at least in the case of Taiwan.

A similar debate took place in China. If foreign trade reform is to be an outstanding success, need we consider further adjusting the exchange rate? Because of high inflation in recent years, in particular, the official exchange rate, almost reasonable at one point, soon became unjustifiable again. At the heart of the analysis is this argument was how to calculate the impact of an exchange rate adjustment on the domestic price level? The difference springs from the fact that some people use the cost deduction method to calculate the price increase rate, while others use the disparity between total supply and total demand and the possibility of money supply control.

If foreign trade reform is to make new progress in 1988, we must realize that foreign trade enterprises will be hard pressed financially by that time to remain responsible for their profits and losses. Thus the need for supplementary conditions. One solution is to readjust the exchange rate again. Another is to enlarge the portion of foreign exchange earnings retained and allow enterprises to enter the foreign exchange regulating market. Which of the two solutions should be adopted was ferociously debated in the critical circle. Some people believed that another exchange rate adjustment would certainly overwhelm the domestic price index in 1988. Since price increases in the country are not low, the masses are very sensitive about this kind of thing and it may prove politically intolerable. Thus consideration was given to the second solution: allowing enterprises to retain an increased percentage of foreign exchange and import some materials. People opposed to this approach contended that raising the percentage of foreign exchange earnings retained has not been proven to have no inflationary effect. When an enterprise uses foreign exchange to purchase materials, it must resell them at a

high price, with significant inflationary results which, it is argued, may even be stronger than price increases fueled by an adjustment in the official exchange rate. Moreover, if the government of a developing nation in the early take-off stage before price reform is completed needs to plan the central allocation of certain important resources, foreign exchange is the prime candidate for such state action. At a time when China is still some way from deregulating all goods and materials completely in favor of market allocation, the premature delegation of the power to allocate foreign exchange may lead to some misuse and low economic efficiency, which would not be beneficial to China's industrial policy and development strategy.

This discussion also lays bare the ways in which an overly strained economic environment restricted reform. In 1986, the domestic price index shot up, the monetary policy was relaxed somewhat, and we ran up a substantial budget deficit, all of which introduced an element of instability into the unveiling of foreign trade reform in 1988. In 1988, China will adopt a policy of overall economic stabilization—trimming the budget deficit, cutting back on the overall scale of credit and the issue of money, and stabilizing the general price level, which will inevitably constrain foreign trade reform somewhat and hence prevent us from freely selecting some ideal foreign trade reform policies. This demonstrates that whether the macroeconomic environment is strained or relaxed greatly affects how much room reform policy-makers have and how fast they can move. It also shows that: 1) The highest decision-making echelon takes a cautious attitude toward this issue, making a decision only after repeatedly comparing and weighing several plans; 2) There is still little agreement among theoretical workers. Since the case has not been argued fully and thoroughly, complete with both solid evidence and analysis, policy-makers have difficulty making choices; 3) Foreign trade reform takes place under constraints imposed by various sectors of the national economy. There is not much leeway for it to range far and wide. Thus progress would come about only through a major effort to reconcile the various conflicts between reform and development.

#### **4. Interrelationships Between Foreign Trade Reform and Reforms in Other Sectors of the National Economy**

After reviewing and reflecting on China's foreign trade reform, many people realize that the most important thing about it is that it must be coordinated with other reforms in the national economy. As macroeconomic management in China today is not yet on sound footing, it is no mean feat to coordinate between several comprehensive sectors on an equal level.

First, foreign trade reform prefers a macroeconomic environment that is not overextended. An excessively large budget deficit, a surfeit of credit, over-investment, or an explosion in consumption funds all pose substantial problems for foreign trade reform. Belt-tightening

and a policy of economic stabilization may sacrifice some short-term interests, but will be good for Chinese reform from the perspective of long-term development.

Other coordinated interrelationships are:

1) Tax reform. A critical issue facing foreign trade reform is the gap between domestic and international prices. Theoretically, taxes can be used to narrow this gap. On the one hand, we can correct the discrimination posed by the present domestic price system against the exports of the processing and multiple processing industries with a system of export drawbacks. On the other hand, we may impose tariffs, a product tax, and a value-added tax on imports to lessen the disruption of domestic prices by international market prices. Nevertheless, given the lack of coordination between price and tax reforms at the moment, structural adjustment tools remain very ineffective. Consequently, we have no choice but to supplement them with certain economic levers, such as differentiating foreign exchange retention and investment incentives by product. These methods are complicated and take a lot of work. Thus tax reform in the future should be coordinated with foreign trade reform.

2) Price reform. In foreign trade reform, enterprises assume responsibility for their profits and losses and operate independently. Whether or not their decisions are consistent with macroeconomic interests will depend primarily on the rationality of domestic prices. Price signals are the most important tool for reconciling macroeconomic with microeconomic interests. When such reconciliation is effected, a further requirement is a basically open market that can determine prices so as to introduce flexibility into domestic resource allocation. Some Asian countries (including India) have tried to emulate the "four little dragons" export-oriented development strategy and enacted a string of similar policies that purported to promote exports. However, because their domestic price systems have not been overhauled and opened up in time, a host of important resources are still administratively allocated. Thus an exporter may spot a new trade opportunity and ask that the export mix be changed only to discover a rigid resource allocation system at home. Whether it is raw materials or elements of production, it is very difficult to adjust their allocation. In other words, the market cannot be depended on to bring about this kind of structural adjustment. The result is no significant gains in exports. In China, foreign trade reform also requires a fairly rational price system and a corresponding market mechanism for allocating resources flexibly. So far, though, price reform in China is still lagging and cannot support the kind of flexible resource allocation mechanism required by foreign trade reform. This may greatly affect the realization of the anticipated benefits of foreign trade reform. Thus far the only achievement in price reform as far as means of production are concerned is the dual-track system, which, however, has not boosted exports noticeably. The reason is that underpricing within the plan necessarily

leads to overpricing outside, which has caused many normally efficient exporters to operate at a loss. Many foreign-trade enterprises have proposed, "Guarantee the supply of low-cost raw materials, and I will guarantee exports." It can thus be seen that dual-tracking in prices means double distortions. We are still a long way from meeting the demands of enterprises for normal financial accounting and reasonable resource allocation. In considering the pace of price reform in the future, we must pay full attention to the need for coordination with foreign trade reform.

3) The financial system and local government functions. Since China is currently separating central from local finances (taxes are collected in a unified way by the local governments and allocated according to different ratios), local governments are undertaking more and more work in local economic coordination and management. The advantage of this arrangement is that it can unleash local initiative. A local government has a better understanding of local conditions and the state of its enterprises and so is better able to make decisions faster and more effectively. The disadvantage is that once the central government decides to delegate power to the enterprise, such power may actually fall into the hands of local administrative departments. Also, it may threaten the coherence of the industrial policy, the unity of the market, and the effectiveness of macroeconomic balance. Judging from years of practice in foreign trade reform, local governments are extremely supportive of foreign trade and play a role that cannot be ignored. At the moment, though, the power, responsibilities, and interests of a local government in foreign trade have not been properly integrated, and the question of whether strengthening its responsibilities and power would avoid the pitfalls mentioned above has not been fully studied. Research in this area is proceeding actively right now.

4) Financial reform. As far as financial services facing foreign trade reform are concerned, they are relatively poor and lack many tools available internationally. This to a large extent has to do with Bank of China's monopoly on financial services in foreign trade. The division of responsibility between China's four major specialized banks has not been broken. Despite the establishment of the Bank of Communications, which is allowed to engage in foreign exchange services, the resulting pressure to compete and improve services has been less than adequate. In short, the monopolistic approach has led to only slow improvement in the services to foreign trade. Moreover, financial reform has yet to create effective mechanisms to control the scale of credit and the issue of money, which explains the tendency to resort to controlling institutions (the casual establishment of financial institutions is prohibited) and the scope of business (the expansion of the scope of business is disallowed). Yet if we hope to replace traditional command planning with the reasonable application of economic regulatory mechanisms in foreign trade, we cannot avoid deploying various financial economic instruments or demanding that new financial institutions be set up, particularly

those that make policy for foreign trade. Such demands are not likely to be met before financial reform gains ground. Furthermore, our plan calls for the development of large foreign-trade enterprises into comprehensive corporations, thus integrating foreign trade with domestic trade, trade mechanisms with financial mechanisms. Such comprehensive corporations should have the same operating capabilities as their international counterparts in order to compete internationally. The current financial system sets a strict limit on this, a state of affairs that is badly in need of change.

Foreign trade reform is related to and needs to be coordinated with many other reforms, such as those in wage, transportation, and macroeconomic supervision and regulation.

12581

### **Du Runsheng on Export-Oriented Strategy for Coastal Areas**

40060247 Chongqing GAIGE [REFORM] in Chinese  
No 2, 10 Mar 88 pp 13-16

[Article by Du Runsheng under the rubric "Special Essay": "On the Strategy of Export-Oriented Development for Coastal Regions"; passages in italics as published]

[Text] Abstract:

*The strategy of gradually instituting export-oriented development in coastal regions is a strategy which combines deregulatory policies with the best use of advantageous labor resources. It is a matter of overall significance to us in further implementing our policy of opening up to the outside world. This essay quite amply proves the necessity and feasibility of this strategy from both domestic and the international perspectives. In addition, it suggests two policy objectives: First, that we should intensify reform and proceed boldly to allow export-oriented enterprises to move into the international marketplace and take the direct brunt of competitive pressures, struggling to exist and develop; second, that imports should serve to develop and guarantee exports, and that we should take a route that rotates among exporting, importing, and export expansion, developing industry that will produce foreign exchange.*

### **An Export-Oriented Strategy**

According to our established policy of opening up to the outside world, we will gradually institute a strategy of export-oriented development in China's coastal regions. That is, we will rely on our cheap, plentiful labor resources to train a low-cost, high-quality labor army, and, adopting primarily the township enterprise format, we will produce labor-intensive products to exchange with the outside world. We will import raw materials, export products, earn back our processing costs, and

export labor power in the form of the products we produce. Acceding to international economic cycles, we will rapidly develop our nation.

This proposed strategy reflects the objective state of economic development in China. In the past few years we have made rapid progress by encouraging township enterprises to operate industries that produce foreign exchange and recommending that farmers engage in agriculture that will produce foreign exchange. Prior to this, villages in coastal Guangdong implemented a system of trade, industry, and agriculture that promoted the start-up and development of an export-oriented economy. Because economic development has produced some difficult dilemmas, many comrades have pondered the issues and made suggestions. Among these proposals was one made by comrades in the State Statistics Bureau, who pointed out the conflict engendered when agricultural and sideline exports are confronted with two markets. The excess demand causes prices to rise, and this exacerbates market shortages. But, in selling abroad, if the quality is lacking, the selling price will be low. Only by increasing the volume of exports can we fulfil our foreign exchange plan. In order to resolve this dilemma, these comrades advocated advancing agricultural modernization, developing the processing industry, and producing high-quality, high value-added goods that will produce foreign exchange. Another State Planning Commission researcher suggested that we make the best use of inexpensive, abundant labor resources available in the countryside, produce labor-intensive products, import raw materials, export processed goods, accede to international cycles, and resolve the contradiction between large-scale conversion of labor and resources and insufficient funding. These suggestions were given careful consideration.

An export-oriented strategy combines deregulatory policies with the best use of advantageous labor resources. It has enriched our deregulatory policy and become a component part of economic strategy. One could say that it is an important step in fulfilling the overall intent of the 13th Party Congress Report. The situation on all sides indicates that the time is ripe for implementing this strategy.

### **Necessity**

First on the list of China's most plentiful resources is labor power. How we are to make the most of this advantage is something we must consider at high strategic levels. A lot of China's surplus labor force is tied up in the countryside. If we cannot deploy this labor force in a rational production mix, it will become a major burden to us, and supporting it will make it difficult for us to become a modern society. On the other hand, if we are adept at putting this advantage to good use, at the very least it will not be hard to attain a comfortable standard of living. Suzhou has converted its surplus labor force over to secondary and tertiary industry, and by 1986 average per capita GNP had already risen to over

\$1,000. This is clear proof. However, no nation in the world has had experience in organizing employment conversion on such a large scale. We can be sure that we will inevitably run into various problems and conflicts. Looking at industry today, we can see that in some production spheres township enterprises can become indispensable complements to major industry. For example, township enterprises already account for over 50 percent of all enterprises in the construction materials industry. Resources in this case are abundant—we have a lot of mountains, rock, and coal—and there are no major conflicts. This is also true in many industries that manufacture small commodities. But in some manufacturing industries the need for supplies of wool, steel, timber, and other goods and materials has resulted in competition with major industry for raw materials. In addition, township enterprises concentrated in the developed southeastern region of China account for approximately 60 percent of the total number nationwide. By contrast, in western China development is slow. Eastern products make their way into markets in western China and repress the development of enterprises there. We must search for employment opportunities for the surplus rural labor force, but in the process of converting people to other employment we will also run into resource and funding constraints. This is indeed a contradiction. If some enterprises switch to export-oriented production it will help to alleviate this contradiction to a certain extent, and thus help to turn the limiting factor of excess population into an advantageous element.

From the perspective of current world development, it is inevitable that international economic contacts will grow stronger day by day. Every nation, whether it be socialist or capitalist, can use these contacts to expand the market share for its own products, and can make full use of the possibilities inherent in international division of labor to accelerate its own development. If we first delimit a region along the coast where we can test adaptability on a large scale, results will soon conform to our expectations.

The coastal regions are populous and short on land, and resources there are deployed irrationally. It is very difficult to make adjustments in this situation. The actual cost of grain production is constantly rising, and peasants find it neither worthwhile nor appealing to grow grain. If we institute an export-oriented strategy, we can export processed goods and local specialty products and make a profit in foreign exchange to trade for grain. We can also buy grain from the hinterland under mutually beneficial conditions and carry out import substitution in order to alleviate the pressures of grain production. We can cultivate cash crops according to local conditions and supply them for processing into exports. This will consolidate income in specialized households and create the conditions necessary to promote economies of scale and modernization in agriculture.

China's rapid growth in recent years has led to a spurt in consumption and the importation of a large volume of raw materials, causing the foreign exchange gap to

widen. It has been necessary to export more primary products. But the cost of foreign exchange produced on exports of primary products is higher than the cost of finished products and has overtaken the drop in international prices. Foreign exchange earnings have correspondingly declined and export subsidization has increased. The country is facing a major foreign trade deficit. We can still borrow from abroad, but if outstanding debts pile up to a certain point, the quantity we expend on loan repayments will offset incoming foreign loans. Consequently, if we take advantage of the opportunity available through the reorganization of world economic composition to cast a portion of our coastal manufacturing industries into the cycle of international production and consumption, thus expanding exports and increasing foreign exchange earnings, it will play a powerful role in supporting our domestic policy to reduce the scale of investment and control the growth of consumption.

#### Feasibility

Whether or not it is feasible remains to be demonstrated. Feasibility depends not merely on ourselves, but also on the international market. Can the international market accommodate labor-intensive products? And if it can, how big a share can it accommodate? Labor-intensive is a relative concept which changes, historically, with time and place. Production in which the labor investment is rather large and labor costs are low can be called labor-intensive. Labor-intensive production does not necessarily mean manual labor. Generally speaking, in the transition from an agricultural economy to an industrial economy, most nations and regions that have large populations and shortages of land and capital must pass through a stage in which many labor-intensive enterprises persist. In Asia, Japan, South Korea, Singapore, and our own province of Taiwan have undergone this experience. Several Latin American nations that have attempted to bypass this process and enter directly into capital-intensive industry have instead been beset with difficulties. If we implement and persist too long in a strategy slanted toward heavy industry, unfavorable factors will result: urban and rural development will be out-of-sync with each other and smooth economic development will be blocked. Do labor-intensive products have a share of the world market? Human consumption has always been multi-layered because different incomes, interests, and time frames result in diverse needs. For example, in developed, high-income nations, there is again a ready market for cotton, silk, and linen textiles; where mass-produced clothing was the rule, now the trend is toward hand-tailored clothing; and in foods, people are looking for national specialties and products untainted by pollution. All of these goods are labor-intensive. As for high-tech products, there are also certain ones, such as some automobile parts that depend on labor-intensive methods of production.

Because of changes in labor costs, some developed countries are moving toward capital-intensive production. This has shifted labor-intensive production and

markets toward developing countries because the latter have the advantage of labor resources. China's share of the international market is not well matched with our production capacity. Import and export trade accounts for only about 18 percent of the nation's gross output value—a very low starting point. However, China has a large population and vast territory, and relies very little on the international market. For the nation as a whole, our share of import and export trade cannot be boosted too high, but the coastal regions should have a fairly large portion. That is to say, considerable potential still remains. If the world economy goes into a recession, the market for both high-tech and labor-intensive products will be blocked, but, proportionally speaking, the latter market share may expand somewhat. If there is a partial, short-term recession, then there will be even more room for labor-intensive products. Filling the gaps where certain countries have withdrawn from the market can be our initial objective. If comrade Deng Xiaoping is correct in his appraisal, it is possible that the atmosphere of global peace will continue for several decades. And after several decades of peace, the possibility of world war will be even smaller.

What is the situation in China? First, labor resources are plentiful and costs are low. Although quality is somewhat lacking, it can be improved. Second, and most important, we must have a good economic mechanism, and especially a good foreign trade system. Our intensified reforms are intended precisely for the purpose of creating this kind of moving mechanism. Third, we have a certain amount of experience in actual operations and we possess the necessary funding and technological conditions. In the past few years some regions have already taken the first steps, with good results. Funding problems will not be hard to resolve if we first stimulate financial markets and improve the investment climate.

Above, we have demonstrated the feasibility of this strategy from domestic and international perspectives. But, despite the fact that it is feasible, considerable indeterminacy still exists. We should conduct an adequate appraisal of difficulties and problems. For example, if we link production directly to the international economy, commodity prices and exchange rates will drift with it and will not conform to our existing economic pattern. And if we artificially partition districts and implement certain preferential policies, we will surely create friction between the two regions and the two markets and distort their economic interrelations. Major fluctuations may occur in the international marketplace, and we will be unprepared for them. Most important, we need a process for improving technical and management levels in our enterprises. For the moment, it is unclear what the consequences will be. We need to experience, explore, and develop in order to provide clear answers and ways to resolve these issues.

Why must we choose coastal regions as the place to begin implementing an export-oriented strategy? First, the coast is geographically advantageous. Second, it has had

some practical experience. Third, and this is the most important point, in coastal regions township enterprises are quite well-developed, peasants are well-educated, cadres display high-quality management, there has been success in exporting to create foreign exchange, and funding is available for start-up costs. Fourth, there are several large ports in these regions, and we can make the best use of the various kinds of services supplied to save transaction costs. For example, Shanghai itself has had the most trade experience. It has the tradition, the talent, the network of contacts, and the capability in both domestic and overseas markets. We must concentrate on developing its potential. Fifth, the choice of coastal regions is also politically significant. Making this region the model for entering the modern age will bring income levels for 50,000 to 200,000 people closer to those of Hong Kong and Taiwan. This will help us to persuade those who, because of persistent economic disparities, have doubts about unifying the country.

Why must we choose township enterprises? Primarily because township enterprises are labor-intensive industries, are highly capable of holding a market position, have a good mechanism, and can really assume sole responsibility for profits and losses. From the beginning, township enterprises must rely on market contacts and have a strong concept of the struggle for existence. Labor-intensive products are not very regular, and township enterprises are small, maneuverable, and highly able to meet any emergency. They can react quickly to the market. But it cannot be said that state-run enterprises and enterprises in other regions have no export-oriented functions. All enterprises suited to export-oriented production should be encouraged.

### Our Two Policy Objectives

We must have a series of policy measures to guarantee the implementation of an export-oriented strategy. When we first think about the following two points, it seems that we should make them the directional goal for formulating various policies.

#### 1. Stress Reform and Promote Development

In implementing an export-oriented strategy, we must rely on a new economic mechanism. If we depend on the old system to engage in international trade, importing and exporting huge quantities, we will inevitably be defeated. It cannot be done. Consequently, we must intensify reform and ensure that every township enterprise can operate independently, take sole responsibility for profits and losses, and constantly improve competitive vigor. In developing labor-intensive manufacturing industries, we cannot look to the uppermost enterprises—those that are subject to direct governmental intervention and that have amassed huge quantities of capital. We must be sure not to blindly expand the scale of capital construction. The first step is policy encouragement. The characteristics of labor-intensive manufacturing industries are as follows: small enterprise scale,

fine differentiation between products, and highly resilient market capacity. In order to maintain their competitive positions, these industries must rely on arriving at small, but constantly new ideas on products and technology. They must promote these new ideas on the international market and subject them to competitive pressures, struggling themselves to survive and develop amid the hazards of competition. Consequently, we absolutely must foster policies which allow enterprises to operate autonomously, conduct foreign trade, and take direct responsibility for exporting and importing. We must permit reasonable transfers of necessary production elements between enterprises and improve returns on capital used. This point should be our chief policy goal in reforming the township enterprise system.

In reforming the foreign trade system, we must chiefly seek to create for enterprises an environment of free choice in importing and exporting. We need to guide enterprises in converting their import orientation to an export orientation, encourage exports, and profit from more added value. We must encourage enterprises to develop outside contacts and organize systems of economic associations to provide supply and marketing services. We must develop multiform, multi-component intermediary commercial organizations and permit foreign merchants to register and do business according to our laws and decrees. The foreign trade sector should separate politics from business, enterprises engaged in foreign trade should cast off their monopoly status, and the administrative sector should better exercise its function of macroeconomic regulation.

## 2. Imports Should Serve To Develop and Guarantee Exports, and We Should Promote Rapid Growth of Export-Oriented Industry

The main point of an export-oriented strategy is to develop industries that produce foreign exchange and to take a route that rotates among exporting, importing, and export expansion. If we import in volume, then we must export in volume. We cannot import in volume and export very little; even less can we import without exporting. The path of processing imported raw materials for domestic consumption raises too many conflicts and must be avoided.

Right now, we cannot we open up the foreign exchange market either. Differences in foreign-exchange list prices persist, and control over foreign exchange amounts to control over surplus-value purchasing power. The demand for foreign exchange exceeds the supply, and temporarily we cannot afford not to put administration and user distribution into effect. In order to ensure how foreign exchange is used, the assigning region will implement a system of rationing the use of central government foreign exchange. This is, after all, a suitable choice. We can open up a standard trading market to carry on trade and regulate surpluses and deficits under bank supervision. And we can ensure that when enterprises purchase goods and materials they can tally profits and losses

based on true costs, thus saving on foreign exchange used. In order to restrict the importation of raw materials from overseas to be processed for domestic consumption, we can use the method of taxing incoming materials at the time of importation and allowing a duty drawback on products at the time of overseas sales. After we institute a provincial-level system of overall rationing for the use of foreign exchange, we can put a system of public bidding for contracts into effect among enterprises and overseas trading companies. Together, the various departments concerned will comprise the project start-up mechanism and bear the responsibility for initiating and inspecting the project. To improve our investment climate, we must boldly assimilate factories operated with foreign capital, as well as "the three forms of import processing plus compensation trade."

Switching tracks from an import-oriented economy to an export-oriented economy is an extremely difficult process. The government must draw up policies that have the dual effect of simultaneous encouragement and restraint. It must make enterprises feel that profits from foreign sales exceed those from domestic sales, so that they willingly convert. We need specialized financial institutions to supply guarantees for circulating funds. In order to cope with fluctuations on the international market, localities and enterprises must also work together to accumulate the necessary emergency funds.

12510

## Analysis of Direct Overseas Investment

40060278 Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 3, 30 Mar 88 pp 15-18, 36

[Article by Xia Shen [1115 3947]. Foreign Economic Relations and Trade College: "Theoretical Conceptualizations of Chinese Direct Overseas Investment"]

[Text] Socialist China, which is in the midst of reform and opening up to the outside world, is now throwing herself more actively into the mighty world economic torrent of the times, of which international investment forms a powerful whirlpool. How we can fully transform the energy released from this whirlpool into another "engine" of China's modernization is a urgent practical question and an issue that requires further study. The time has come for a theoretical discussion of and strategic planning for the internationalization of Chinese enterprises.

## I. The Patterns Governing the Nature of Chinese Enterprises Operating Overseas

The fundamental tenets of Marxist political economy teach us that only by focusing on the interaction of international productive forces and relationships can we scientifically explain and understand the unique nature of direct overseas investment by developing countries.

Since China is a developing socialist country, this theoretical approach must be employed when analyzing the patterns governing the nature of our enterprises operating overseas.

As the socialization of production advances, the production of any nation having a commodity economy naturally tends to become increasingly internationalized. The current scientific and technological revolution and the increasing international division of labor have spurred a sharp rise in social productive forces, which development objectively ordains that certain links in social reproduction and expanded reproduction and even primary production itself move beyond national boundaries to other parts of the world. And multinational corporations are an effective form of economic organization at this particular historical stage of the socialization of production. The emergence of such corporations is a reflection of the laws governing the interaction of the socialization and internationalization of mass production and of the common trend toward seeking optimal siting and siting mix of the factors of production. Thus developing nations, including developing socialist countries, certainly can employ this organizational form, which is adapted to socialized, internationalized production, as they initiate multinational operations. Today, China's open, planned commodity economy has broken out of its prolonged, closed autarky, her national income shows growing external outflows, her social reproduction and circulation are becoming increasingly international in scope, and her national economy and her externally oriented economy are gradually maturing. Therefore, now is the opportune time to internationalize production and to establish more multinational corporations bearing Chinese characteristics.

The factors of production we invest abroad include productive relationships that are unique to China. These relationships combine with the varied national systems and productive relationships of host nations to produce new, unique and complex social attributes. The joint ventures and wholly owned enterprises we establish in other socialist countries naturally are socialist in form and publicly owned, but the means of production may be jointly or wholly owned, depending on the type of enterprise involved. On the other hand, our joint ventures in developed capitalist countries and in other developing countries and regions are a hybrid form combining two economic components—the socialist public system of ownership and the capitalist private system of ownership. These ventures are a special form of economic organization that exists under capitalism, and their specific features are determined by whatever economic component actually predominates in the venture. If Chinese investors own the majority share or exercise the greatest amount of managerial authority, the enterprise will be a special form of state capitalism; but if monopoly capitalists, private individuals or national capital of the host nation control things, the enterprise will be capitalistic in form; and wholly-owned enterprises we establish in nonsocialist countries will be

socialist economic forms that exist under capitalism, which is to say, state capitalist. Overseas enterprises of developing socialist nations combine a variety of productive relationships and both serve socialist economic development and are conditioned by capitalist economies. This understanding gives new meaning and content to Marxist theory on productive relationships and systems of ownership.

Although Western scholars were the first to study "Southern multinationals" of the Third World and "Red multinationals" of the East, they have yet to transcend the narrow perspectives and traditional conventions of bourgeois economic theory. Usually basing their analyses on the three factors of production posited by Jean Baptiste Say, they conceptualize developing nations' direct overseas investment in terms of technological and economic relationships, treat international movements of the factors of production purely in terms of the operation of productive forces, overlook another element of this investment—namely, that it reflects the international operation of productive relationships, and thus often lump together two types of multinational corporations that have entirely different social attributes, traits and historical roots.

Some Chinese scholars believe that Lenin's theory concerning capital exports can be extended to and explain overseas investment by developing countries. But in fact, in terms of form, preconditions and direction of flow, the economic relationships represented by and the actual consequences of the classical, imperialist exports of capital during Lenin's era and the exports of productive capital by developing countries of our time differ greatly. Lenin's theory is but a theoretical reflection of economic reality at a specific historical stage in the development of modern capitalism, and mechanical application of this theory will not enable us to understand the true nature of overseas investment by developing countries in the present age.

If we compare the most advanced and developmentally complete multinational corporations owned by international monopoly capitalists with the multinationals of developing socialist countries, the essential differences in the direct overseas investment of these two economic actors becomes much clearer. First, preconditions differ. In developed capitalist nations, foreign investment is rooted in "surplus capital," whereas China is capital-deficient, and inflows of foreign capital into our country greatly exceed outflows of our own capital. Second, basic goals differ. Western multinationals are inherently motivated by a desire to amass capital, seek to appropriate surplus value on a global scale, and strive ultimately to maximize their super-profits. China's multinationals, on the other hand, operate under the socialist economic system and seek only a certain, reasonable amount of profits. Their fundamental goals instead are, on the one hand, to spur economic development and to strengthen the international competitiveness of our own country and, on the other, to promote economic cooperation

among developing countries, resist the monopolization of international trade and investment by Western multinationals, and to strive ultimately to establish a new international economic order. Third, operational strategy differs. In their global strategies, Western multinationals do not scruple to engage in internal "transfer pricing" and other activities to profit at others' expense, whereas most of China's overseas enterprises enter into joint ventures with their host countries and strictly abide by the code of "equality and mutual benefit, seeking practical results, employing a variety of forms and striving for joint development." Fourth, the actual consequences differ. Objectively speaking, foreign investment by developed capitalist countries has a positive side in that it spurs the economic development of the host country, but also a negative aspect, which is that it involves international exploitation and domination. China, on the other hand, has for many years carried out her foreign investment on the basis of the principle of equality and mutual benefit, and by emphasizing that the host country must receive real benefit, by mobilizing the productive resources of both sides, by maximizing the complementary benefits arising from the international division of labor, and by providing for joint economic development, our investment has always served a positive role and been effective.

## II. The New "Engine" of the Policy of Opening Up to the Outside World

The internationalization of Chinese enterprises is strategically ordained by the progress registered in our program of opening up to the outside world and is consistent with recent developments in the international division of labor, which is equally rooted in the division of labor within multinationals and in factorial endowments. The importance of this process is manifested in the following areas.

1. The fact that China's economy is open and socialist establishes the strategic importance of direct foreign investment within the economy. An open economy is a bi-directional circulatory system that is reversible or permits feedback. If this system can only receive inputs of but not output energy, the system will degenerate and lose stability. Similarly, if after an extended period of time an open economy only imports and but does not export, it will develop serious dependency on foreign sources of capital and technology, and domestic capacity for capital use and technological innovation will atrophy. Only by combining imports and exports and ensuring bi-directional flows can an open economy attain a state of dynamic balance, avert the problems of new dependency and developmental stagnation that may arise from long-term one-way inflows, overcome the problem of limited resource endowment, deploy economic resources multinationally and achieve the kind of optimal results that are unobtainable in a closed economy.

2. Developing overseas investment is objectively ordained by the diversification of China's external economic relations. Our traditional external trade remains mired at a relatively unsophisticated level of international economic activity, the forms under which we participate in the international division of labor lack variety, and our direct foreign investment accounts for a much smaller share of our total exports than the levels of developed countries and even some newly industrialized countries [NICs]. To avoid the uncertain risks involved in overdependence on exports, we must draw up a general strategy that provides for balanced development of a variety of external economic relations; import and export capital, technology and managerial experience as well as merchandise; and seek not only to attract inflows of foreign capital but also to invest abroad ourselves. In fact, direct overseas investment provides another way of using foreign capital; it is merely the venue in which the capital is used that differs. All of these international economic activities are interrelated and promote and condition each other. Multifaceted development of economic ties will add new "wheels" and "engines" to China's open economy and will provide Chinese enterprises with more options and room to maneuver in their international operations.

3. Direct overseas investment is a strategy for responding to recent changes in international competition. International competition has developed across the board—in trade, finance and investment. After their success in initiating export substitution [as published] during the 1960s, NICs began to embark on investment-led growth during the late 1970s, using a new form of economic activity—direct overseas investment, to participate in international competition, and thereby successfully maintained their export market shares. Since China is having a hard time making new breakthroughs and new advances in her export trade, the strategy of using investment to promote trade may well prove to be a good idea and merits careful consideration. It must be noted that overseas investment by some Asian NICs poses a threat and challenge to China's exports and foreign investment, and these actors are our main opponents in this "investment war." If we do not try to be aggressive in this area, the international competitiveness of our enterprises will suffer and we will fall farther behind developed countries and NICs in international trade and production.

4. Enterprise internationalization is a road China's foreign trade restructuring must take. The long-term goal of this restructuring is to internationalize our enterprises and our socialist commodity economy. Due to a variety of complex reasons, this restructuring effort has had a difficult time advancing, so that many plans and processes have focused too much on short-term objectives and have not properly been linked and coordinated with long-term aims. This has given rise to a novel and daring approach, namely, to have a number of advanced enterprises take the lead in becoming internationalized, let

these firms be tempered and improved through international competition and thus create a seed bed for nurturing the growth of multinational corporations bearing Chinese characteristics. We can also use the economic energy radiated back home by these internationalized firms to vaporize the old conventions and bad habits of traditional foreign-trade administration and to fuel foreign trade restructuring. Producing a number of world-class multinational corporations would be a mark of the maturity of China's open economy and give our national economic development greater momentum.

### III. An Analysis of the Practicality and Feasibility of This Plan

It should be noted that China not only must but also can develop direct overseas investment. Some people might object to this assertion, wondering if we really are equipped and qualified for this undertaking, and such claims as "we lack sufficient resources," "we're strapped for foreign exchange," and "our technology won't cut the mustard" are fairly common. There is no denying that, compared to developed nations and some NICs, China may have no absolute advantage and may be at a disadvantage in terms of resources, foreign exchange holdings and technological levels. But it must be borne in mind that direct overseas investment is not a function of absolute advantage but rather primarily of comparative advantage and that, under certain conditions, disadvantages may be transformed into comparative advantage.

Regarding the first challenge, resources, China's socialist development over the past 38 years since the founding of the People's Republic has created a fairly good material and technological foundation for direct overseas investment. Most of our country is now moving from the second to the third stage of the "investment-development cycle," and a few open coastal areas and cities have already entered the third stage, which is characterized by "specialization in international investment." And our per capita income is about the same as India's, so if India can undertake large-scale direct overseas investment, how we can bemoan a "lack of resources"?

As for our foreign exchange holdings, difficulties abound but can be overcome. We contribute an average of 56 percent of the total investment made in the joint ventures in which we participate overseas, and the remainder of that investment is provided by foreigners, which is tantamount to expanding our use of foreign capital. The vast majority of our investment has been in machinery, raw materials and other tangible goods and in technology, know-how and other invisible assets. We have made little investment in spot exchange, so raising short-term loans on international capital markets and from host countries certainly is not impossible. Most importantly, we can take advantage of our system of public ownership of the means of production to concentrate our limited domestic capital and funnel that capital into key, centrally planned investment projects. This is something Western multinationals would have difficulty doing.

In technology, China possesses comparative advantages in traditional industrial, mature or standard, small-scale and labor-intensive technologies and can supply such technologies to developing nations urgently needing applied and productive technology. There is no lack of high-tech areas in which China is a leader, yet we have been unable to transform these technologies into practical productive forces because our material supply and manufacturing techniques have failed to keep pace with our advances in technology. In the past, we often relied on simple exports of technology and rarely considered using direct foreign investment to develop our advantages and tap our potential. If we can organically integrate these two things, we are bound to reap much greater economic benefits than we do through simple technology transfers.

Does China really lack the resources and boldness for such a mammoth undertaking as direct overseas investment? Facts speak louder than words. As of the end of 1986, China had approved the establishment of 277 enterprises that were to engage in nontrade production overseas involving a total investment of \$400 million, of which Chinese investment was to total \$230 million. Chinese overseas enterprises operate in 50-plus countries and regions of the world, their investment is concentrated in manufacturing and resource and new technology development, and 90 percent either have suffered no losses or are profitable. Especially noteworthy is the fact that, since we opened up to the outside world 9 years ago, our foreign investment has risen at an average annual rate of 120 percent, which is higher than the rate of any other developing nation and exceeds the growth rate of our export trade. Even though our enterprises are just beginning their advance abroad, this inspiring prelude presages a magnificent and bright future for Chinese overseas investment.

### IV. A Few Policy Proposals

Any examination of models for direct overseas investment carries strong policy implications. Combining theoretical models with China's practical tasks of planning overseas investment and creating multinational corporations, I should like to make the following policy proposals.

#### A. Macroscopic Policy Proposals

1. We should establish a specialized administrative agency—an overseas investment commission—under the State Council that would be comprised of representatives of the Ministry of Foreign Economic Relations and Trade and other relevant ministries and commissions; assume responsibility for drawing up China's strategic plans, guiding principles and policies for developing direct overseas investment; macroscopically lead, coordinate and organize direct overseas investment by all industries and sectors of the entire country; approve large investment projects; and provide needed guidance and advice.

2. Given China's comparative advantages in terms of our system of ownership, level of localized production, and investment siting, at the current stage our strategy for direct overseas investment should be as follows. (1) We should first undertake "trade" investment and then "productive" investment, which means that we should first establish multinational trading companies or subsidiaries in our principal international markets, use trade to gain experience and then transform trading companies into producing firms. (2) We should direct most of our investment toward developing countries and regions so as to exploit the technological advantages of our enterprises in small-scale and labor-intensive production, and we should initiate investment in research and development in these countries, using the technological backflows from and conductive mechanisms of direct overseas investment to obtain new high tech and to promote the internationalization of research and development. (3) Our investment mix should be simple and rooted primarily in manufacturing, resource development (such as lumber and minerals), technology development and service industries. (4) We should primarily engage in "secondary transfers" of the foreign technologies we absorb, assimilate and transform and supplement these with new technologies we have developed through self-reliance. (5) Our investment should primarily be export-led, which means that we should focus on getting around trade barriers, producing and marketing locally, protecting our existing export markets, and aggressively using host countries as "springboards" for opening markets in third countries. (6) We should focus our investment on joint-equity ventures in which we take a minority stake. (7) Most projects should be medium or small in size.

3. We should establish and improve macroscopic financial policy for our foreign investment. Most importantly, the Bank of China should provide enterprises with long-term preferential loans for their foreign-investment projects; where necessary, guarantee loans obtained by enterprises from foreign banks; and, especially in the initial stage after the establishment of these enterprises, provide a certain amount of preferential treatment in terms of spot-exchange support and foreign-exchange retention.

4. We should establish and improve tax policy on foreign investment. Machinery, equipment, raw material and intermediate-product exports generated through direct overseas investment should be exempted from export duties and accorded import-duty rebates; imports for resource-investment projects should be granted similar treatment or preferential duty rates; and the goods our overseas enterprises purchase with earnings in nonconvertible local currencies should be granted appropriate import-duty reductions and exemptions.

5. We should establish and improve laws and regulations governing overseas investment, formulate as soon as possible laws on overseas joint ventures and direct

investment overseas, and actively negotiate and sign agreements protecting mutual investment, such as conventions preventing dual taxation.

#### B. Microscopic Policy Proposals

1. We should make economic conglomerates possessing abundant financial and technological resources our principal multinational investors and operators. China must have conglomerates like India's Tata and Birtong [3024 1422 0681] before we can compete in international investment. Our national foreign-trade companies and a few of our larger industrial groups possess the necessary resources to set up operations overseas, and we might consider letting these firms take the lead in internationalization.

2. We should create as many of the conditions as we can to enable our overseas firms to compete on an equal footing with the multinationals of other countries. The main point here is that we should give internationalized enterprises as much autonomy as possible. For example, we should not overly restrict these enterprises' realm of activities and range of production, we should gradually loosen restrictions on the entry and exit of their personnel, we should simplify approval procedures (but we should continue to control the merchandise such personnel bring into the country with them), and the like.

3. We should emphasize training of multinational enterprise management personnel, especially of experts in management, technology, finance, accounting, marketing, and law, of which there is a great shortage at present. And in a planned, purposive and multichanneled way, we must train and supply enterprises with a large number of international investment experts.

In summary, to ensure smooth development of China's direct overseas investment, we must organically link government macroscopic management and coordination with microscopic operational mechanisms and use economic measures to give enterprises incentive. So long as we persistently explore ways to internationalize Chinese enterprises, we can soon expect to see even more socialist multinational corporations bearing Chinese characteristics on the international economic stage.

12431

#### AGRICULTURE

##### Beijing, Hebei Vegetable Production, Marketing Suggestions

40060282a Beijing JINGJI CANKAO in Chinese  
28 Apr 88 p 1

[Article by Tian Yuan [3944 3293], Qiao Gang [0829 0474], and Liao Yingmin [1675 5391 2404], of the State Council Economic, Technological, and Social Development Research Center: "A Survey and Suggestions on Vegetable Production and Marketing and Construction of Vegetable Production Bases in Beijing and Hebei"]

[Text] Under the present double-track vegetable price and circulation systems, the problems in vegetable production and marketing and the construction of vegetable

production bases in Beijing and Hebei cannot be solved by simple administrative control or market deregulation. New ways must be found with the adoption of new ideas and measures to reform the systems radically. It involves gradually reforming the price subsidy and purchase and marketing systems, readjusting the operations of state-owned commercial enterprises, resolving the problem of exchange at equal value with the peasants according to the principle of developing a commodity economy and the law of value, developing diverse forms of relationship between production and marketing, and building new production bases.

1. We must actively reform the price subsidy system, rationalize vegetable prices, and readjust the operations of the state-owned commercial enterprises. For the near future, to minimize social shocks, measures can be designed to gradually reduce the varieties and quantities of ordinary vegetables whose prices are either frozen or subsidized, while decontrolling the prices of all other vegetables. With the reform of the financial system as a whole, hidden vegetable price subsidies should be gradually turned into a vegetable price regulation fund, which will be used by a relevant overall regulatory organization to handle price fluctuations caused by good or bad crops. The existing state-owned vegetable companies should all implement the principle of independent management with full responsibility for their own profits and losses and operate on a competitive basis, and they should no longer perform the function as market regulators.

2. Vegetable production bases should be rationally distributed throughout the country, and vegetables should be circulated at various levels and on a broad scale. In the past we have put too much emphasis on "local production to supply local demand" and each city seeking its own balance. That is actually a viewpoint of natural economy. In reality, owing to geographic and climatic limitations, no city or area can independently supply its own vegetable demands. Therefore, while building vegetable bases in areas near big cities, we must also, proceeding from the need for rationally distributed bases nationwide and to take advantage of superior local conditions, build and expand vegetable bases in Guangdong, Guangxi, Fujian, Yunnan, and Sichuan to "supply vegetables from the south to the north," bases in the Hexi Corridor to "supply vegetables from the west to the east," bases in Hebei to "supplement supplies in the slack summer and autumn seasons," and bases on open and protected land in the suburbs of large- and medium-sized cities where conditions permit. A little investment in vegetable shipping equipment and facilities will then pay handsome dividends. Similarly, vegetable bases in Hebei should not limit themselves to just serving Beijing, but should aim at the great nationwide and even world markets.

3. It is necessary to develop cooperative production and marketing organizations and promote production on a fairly large scale. The freedom to grow and market

vegetables, even though scattered and on a small scale, has aroused the enthusiasm of the peasants. It has also given rise to the incompatibility between "freedom" in production and "control" in circulation.

Some counties in Hebei Province have adopted the practice of "joint operations and management" for vegetable production. Peasants are encouraged to join "cooperatives of vegetable producers" on a voluntary basis. The cooperatives have management organizations at the county, township, and village levels, which have strengthened organization and coordination of vegetable production and, by providing suitable seeds, technology, material supplies, and marketing and other services, played a positive role in promoting vegetable production on a fairly large scale.

Policies encouraging and supporting peasant households to grow and market vegetables on a fairly large scale not only can help the peasant households reduce production costs quickly but can increase their ability to take risks.

4. It is necessary to reform the wholesale link and accelerate the reform of the vegetable purchase and marketing system. The state-owned wholesale enterprises should be turned as soon as possible into economic entities with full authority for management and full responsibility for their own profits and losses. More spaces and better services should be provided to vegetable buying and selling enterprises in Beijing and Hebei by building and expanding wholesale markets. Enterprises which have the capabilities can organize interregional vegetable production and marketing operations, integrating vegetable production, buying, and selling, either on their own or as joint ventures.

Vegetable retail stores should continue to be contracted, leased, or auctioned to individual operators. And, as vegetable prices are gradually rationalized, the retail stores should be allowed to set their own prices.

5. A regulatory organization should be set up to improve the regional balance between vegetable production and marketing. The problems of vegetable production and marketing and construction of vegetable bases in Beijing and Hebei should be combined with vegetable production and marketing in Tianjin and other places and considered as a whole. Other countries' experiences have shown that the organization of markets under unified planning in a given region will produce positive results in improving market order, bringing the advantages of the participating units into play, and enhancing common interests. Beijing, Tianjin, and Hebei should form a "North China common vegetable market. The three concerned governments should hold consultations periodically to lay down policies, and they should work together in planning, guaranteeing, and supervising the vegetable production, allocation, transportation, and sales within the common market to give full play to the

production potentials of Hebei and the marketing advantages of Beijing and Tianjin and to expand into the national and even international markets.

With regard to chemical fertilizers, insecticides, plastic film, and other agricultural means of production urgently needed in vegetable production at present, it is suggested that feasible solutions be worked out by the Ministry of Commerce jointly with the Ministry of Foreign Economic Relations and Trade and the production departments concerned.

12802

**Conflicts in Agricultural Production, Circulation**  
*40060263 Beijing JINGJI RIBAO in Chinese*  
*15 Mar 88 p 3*

[Article by Yang Zhijun [2799 2388 6511] and Ci Quanzhen [2945 0356 3791]: "Conflicts Facing Agricultural Production and Marketing, and Thoughts on How to Adjust Them"]

[Text] As China has been developing a rural commodity economy, certain old contradictions and new conflicts of interests have arisen simultaneously. To summarize these contradictions and conflicts, the first one is the conflict between the state and the peasantry, primarily in the degree of discrepancy between what is taken from agriculture and what is returned to it. Under price scissors, at any given time the state takes a little more from agriculture and compensates agriculture and the peasantry a little less. Although this conflict was alleviated after we implemented contract procurement quotas on grain, as of today, several have kept it essentially unresolved. Peasant enthusiasm is still more or less restrained, and this simultaneously causes peasants to begrudge selling grain and strengthens the state's actions in fixing procurement prices. The second conflict is an interregional conflict. Part of China's agricultural investment are funds which belong to the regions to ration out. Procurement and circulation of agricultural products is also linked to revenues and expenditures from regional contracting, and supplying urban areas with agricultural products is a regional responsibility. Regions determine the level at which non-staple food products are subsidized, and also defray the subsidy costs. Under these circumstances, if we place no further restrictions on outward shipments of agricultural products, or if we allow them to circulate freely, we may damage the interests of producing regions. But, on the other hand, regions that are shipping in agricultural products will be able to buy the inexpensive or relatively inexpensive agricultural goods that producing regions have invested in or subsidized. More often than not, this would force producing regions to adopt regional blockades to protect their own interests. The third conflict is between cities, primarily the contradiction in the exchange of industrial goods for agricultural goods. In addition to the existence of the original price scissors, this is manifested in the fact that current inflation and disguised inflation in the price

of industrial products grows more serious day by day. Supplies of chemical fertilizer, pesticides, plastic sheeting, electric power, diesel oil, and other materials and energy sources used for agricultural production are running seriously short of demand. The fourth conflict is one between peasants. According to producers who are on an even keel with each other, it is reasonable and beneficial for competitive relationships to exist between peasants in areas of normal production and circulation. But the situation right now is that the government still controls the buying and selling of primary agricultural goods, the pricing system is distorted, and price parities between industrial and agricultural goods make no sense. This determines that the production of agricultural products itself cannot result in competition truly built on a foundation of necessary labor in society.

The existence of these conflicts is an unavoidable phenomenon associated with the process of transformation from the old system to the new. It is useless to rely solely on administrative means to bring these conflicts under control. We must respect pricing regulations and handle the situation according to the demands of developing a commodity economy.

**I. Establish Two Kinds of Price Control Systems:  
Maximum Price Restrictions and Minimum Price  
Restrictions**

The ultimate goal of reform is to completely deregulate pricing on agricultural products and apply the market mechanism to ensure that prices on agricultural goods rise and fall freely with changes in market supply and demand. But right now, because grain is affecting special commodities in the national economy, it is in keeping with national conditions to adopt a "two-track" policy toward grain. But eventually we must completely deregulate grain pricing, after which we will institute macroeconomic regulation. As for regulating grain pricing, it seems we can envisage setting up two kinds of grain prices based on the principle of price determination. One kind would be called the "standard price," composed of the average cost of the agricultural product plus the average agricultural profit. This kind of price would be equivalent to a maximum price. The other kind would be called the "support price," composed of the average cost of the agricultural product. This kind of price would be equivalent to a minimum price. When grain supplies were inadequate and the market price exceeded the standard price boundary, the state would organize procurement based on the standard price; when grain supplies were overabundant and the market price dropped below the support boundary, the state would organize procurement based on the support price. Also, the government would not intervene administratively in any way with peasants who did not adhere to the standard price when they sold their grain, but those peasants would not be able to receive various government preferences. Thus, we could control grain prices within certain limits and reduce as far as possible the damaging effects that price fluctuations have on producers' and consumers' interests.

## II. Create an Environment and Market Conditions Favorable to Competition

First, as we develop a commodity economy, we must define and perfect the functions of economic composition, exchange structure, market and financial organizations, and the government sector, and ensure that the relations of commodity production are legalized. Second, we must create a resilient market that possesses a certain capacity for savings. And, by restraining large-scale price fluctuations linked to the abundance or shortfall of agricultural products and the boom or bust of the market, we must ensure that competition is conducted in an environment of basic equilibrium. Thus, given that we complete and sign contracts detailing the quantities and varieties of goods to be procured, we can permit the state, the collectives, and individuals to launch into open competition within the system of multichannel circulation. No unit or organization should, or has the right to, interfere with unrestrained trade and transportation on the part of anyone handling agricultural products.

## III. Intensify the Vertical Authority and Command System and Create a Horizontal Contingency System

Intensifying the vertical authority and command system and creating a horizontal contingency system is a major task involved in strengthening the circulation of rural information and forecasts. The former system functions to collect, analyze, monitor, set policy on, and release information for the state. The latter system functions as a network to receive, transmit, implement, and digest information for producers. As far as the former is concerned, the accuracy of information mastery and analysis and the timeliness and seriousness of information released are of particular concern. As for the latter, it conspicuously wants to achieve truthful, sensitive, and rapid information transmission. Right now decentralized management is an obvious characteristic of rural management in China. Contacts between peasant households, producers and markets, and rural and urban areas, as well as the contacts—interrelated with these—between the populace and the state planning system, are being further relaxed. With this irregular relationship, in which the vertical and horizontal systems are out of line with each other, even if the state issues accurate and valid policy-making information, it is still difficult to arouse the producers to reasonable action. Therefore, as local areas organize their affairs, they absolutely must conform to the objective reality of autonomous peasant decision-making and decentralized management, be conscientious in establishing, strengthening, and perfecting an economic liaison system, and achieve vertical and horizontal linkage between production and planning. Upper and lower levels must be homologous, feedback and responses must be sensitive, and local areas must gradually ensure that agricultural production moves along in orbit with the planned commodity economy.

Over the next 5 years of construction and reform in China, the mission of utmost importance to us will be to vigorously consolidate and develop what we have accomplished in rural reform; continue to promote reforms in the system of agricultural and sideline product procurement; stimulate circulation; and enhance pre-production, production, and post-production services so as to fully arouse peasant enthusiasm for developing agriculture—particularly grain production. This article analyzes the issue of current circulation of agricultural products and proposes the following suggestions: establish two kinds of price control systems based on maximum and minimum price restrictions; create an environment and market conditions favorable to competition and create a resilient market that possesses a certain capacity for savings; intensify the vertical authority and command system and create a horizontal contingency system; achieve vertical and horizontal linkage between production and planning; arrive at homologous upper and lower levels and sensitive feedback and responses; and gradually ensure that agricultural production moves along in orbit with the planned commodity economy.

12510

### Jiangxi Chemical Fertilizer Prices

40060282b Nanchang JIANGXI RIBAO in Chinese  
21 Apr 88 p 2

[Announcement by the Jiangxi Provincial Price Bureau: "Chemical Fertilizer Price Control Measures and Specific Prices"; date of announcement not given]

[Text] The following announcement is made to help the masses of peasants understand the chemical fertilizer price structure and how prices are fixed in order to facilitate their enforcement and supervision.

#### I. Urea Prices

1. Low-price urea distributed according to the state plan or produced in the province under mandatory planning, used mainly for the "three link-ups": producer price, 410 yuan per ton; unified province-wide retail price, 520 yuan per ton.
2. Urea produced and marketed by the Jiangxi No 2 Chemical Fertilizer Plant and the Jiangxi Ammonia Plant: producer price, 706 yuan per ton, all to be purchased by the provincial agricultural means of production company; unified province-wide retail price, 880 yuan per ton.
3. Urea imported with foreign exchange raised by the province: In the past few years, urea imported with foreign exchange raised by the province was sold at a unified province-wide retail price of 660 yuan per ton. Since the beginning of this year, owing to rising urea price in the international market, the cost of imported urea has increased to 1,070 yuan per ton. The provincial

government has studied the matter and decided to provide price subsidies and also narrow down the difference between import and domestic sales prices. The above-quota urea output of the Jiangxi No 2 Chemical Fertilizer Plant and the Jiangxi Ammonia Plant is put together with the imported urea, and their prices are averaged to result in a unified province-wide retail price of 880 yuan per ton.

Urea imported with foreign exchange raised locally or bought from above-quota output of other provinces by various prefectures, cities, and counties will be sold by local agricultural means of production companies or supply and marketing cooperatives. The retail prices should be submitted to the local price bureaus for examination and approval.

## **II. Fertilizers Produced by Small Chemical Fertilizer Plants**

The producer and retail prices of fertilizers produced by the small chemical fertilizer plants in the province (including ammonium carbonate, calcium-magnesium-phosphate fertilizer, and calcium fertilizer) are as follows:

1. Producer prices: Ammonium carbonate under provincial control (additives added with ammonia content equal to or greater than 17.1 percent and water content equal to or smaller than 3.5 percent) will sell in bulk at a producer price of 160 yuan per ton; packing charges are additional, 20 yuan for single bags, and 30 yuan for double bags. The producer price of ammonium carbonate produced by the prefectures, cities, and counties will be based on the provincial bulk producer price plus an addition of no more than 7 percent, to be determined by the local price bureaus. The calcium-magnesium-phosphate fertilizer (grade 4) produced by the province, prefectures, cities, and counties will be sold in bulk at a producer price of 135 yuan per ton, and packing will cost 16 yuan for single paper bags, and 28 yuan for double bags. The calcium fertilizer (grade 4) produced by the prefectures, cities, and counties will be sold at a producer price of 143.10 yuan per ton, and packing will cost 18 yuan per bag.

2. Market retail prices: Retail prices are determined on the principle of preserving capital with a small profit. They are computed by adding normal shipping and other costs and combined markups at current rates to the producer prices for fertilizers produced in the province

and to the buying prices for products bought from other provinces. The current rates of combined markups are: ammonium carbonate, 10.7 percent, of which the county gets 5.2 percent, and the grassroots unit 5.5 percent; and calcium-magnesium-phosphate fertilizer and calcium fertilizer, 9.5 percent, of which the county gets 4.9 percent, and the grassroots unit 4.6 percent. The specific prices will be suggested by the city and county dealers for review and approval by the local price bureaus.

## **III. Seasonal Price Differences of Fertilizers Produced by Small Plants in the Province**

For ammonium carbonate, the average season includes February and August; the slack season, September, October, November, December, and January; and the peak season, March, April, May, June, and July.

For calcium-magnesium-phosphate fertilizer, the average season includes March and September; the slack season, October, November, December, January, and February; and the peak season, April, May, June, July, and August.

For calcium fertilizer, the average season includes February and August; the slack season, September, October, November, December, and January; and the peak season, March, April, May, June, and July.

All the above-mentioned prices are average-season prices. The producer, allocation, and retail prices for slack and peak seasons will fluctuate downward and upward from the average-season prices. The fluctuations should be kept within 3 percent, to be determined by the plants and dealers.

## **IV. The selling prices of fertilizers produced by the small chemical fertilizer plants in the Ganzhou Economic Reform Experiment Area will be determined by the prefectural price bureau with reference to the above-mentioned pricing procedures and made known to the public.**

It is hoped that the masses will supervise the implementation of the above-mentioned pricing procedures and specific prices. Please report promptly to the local price bureaus, if violations to the above-mentioned pricing procedures or prices exceeding the above-mentioned levels are discovered. Price inspection departments at all levels should deal seriously according to regulations with units and individuals who have violated price discipline.

### **Jiangsu Symposium on Superstition**

40050249 Nanjing XINHUA RIBAO in Chinese  
24 March 88 p 4

[Unattributed Article: "Why are Feudalist Superstitious Activities Prevalent in Some Places: Excerpts of Reports of Some Experts at the Jiangsu Provincial Academy of Social Sciences: Part I"; first paragraph is XINHUA RIBAO introduction]

[Excerpts] In the past few years, superstitious activities of feudalism have not been decreasing in some places; they are, instead, spreading continuously to become a major public contaminant of the society. Many letters have been received from the people to report that participants of these activities are not limited to urban and rural old residents; more and more they include young men and women and even some party staff members and intellectuals of some cultural level. The latter two types, especially, function as the propellant behind the diffusion of these activities. Hence, finding ways of gradually eradicating superstition to reduce, then wipe out these activities has become a worrisome problem for the vast majority of staff members and masses. For this reason, this newspaper invited ten plus research specialists of social problems to a symposium. Following is an excerpt of their reports:

As soon as the symposium began, several specialists remarked that it is not possible not to deal with the problem of eradicating activities of feudal superstition but neither can it be handled hastily. There should be serious analysis of concrete causes of the prevalence of such activities today, if effective eradication measures are to be found.

#### **Deep-rooted Origins Not To Be Plucked Out in One Pull**

Shen Jiarong [3088 0857 2837] (Researcher, Institute of History): As a social phenomenon, activities of feudal superstition have deep historical origins. For more than two millennia, under the dictatorial system of feudalism, rulers have consistently used them to deceive and manipulate the people so as to maintain their political control. Due to the production condition, social status, and low level of culture, the farming masses consigned heaven their dream of breaking away from poverty and misery. They implored the help of gods and the departed.

Tang Jingzhao [3282 2417 2507] (Deputy Chief, Institute of Philosophy; Associate Researcher): The causes of the current outburst of activities of superstition cannot be analyzed without referring to historical continuity. We are in the initial stage of socialism following the transformation from a semi-feudal and semi-colonial society. It is inevitable that there remain residues of original economic, moral, and spiritual elements. People's world views cannot change thoroughly in a short period of time. Moreover, backward production and poor development of science and technology cause the

people to be unable to master their own destiny in their struggle with nature or to satisfy their basic needs completely. This inability remains the social condition for producing feudal superstition.

#### **Crude Handling Only Produces Adverse Results**

Tang Jingzhao: Since the establishment of the nation, we have done a great deal of work with regard to eradication of feudal superstition and there have been some accomplishments. Later, the extreme leftist line of emphasizing "class struggle first" was practiced and the effect on the work of eradicating superstition was bad. First of all, the extreme leftist line damaged the image and the prestige of socialism to shake some persons' faith in science and to raise the status of gods and the departed in their hearts and minds. Such crude measures as "clean sweep," "dictatorship," etc. acted like "driving fish from the pond or sparrows from the bush" in so far as rooting out feudal superstition from the masses was concerned.

Zhong Kezhao [6945 0344 6856] (Associate Researcher, Institute of Philosophy): During the "Cultural Revolution," struggle was key in all practices. Feudal superstition was temporarily suppressed to become a "subconscious" of society, which surfaced with a vengeance as soon as the opportunity occurred. Our work of eradicating feudal superstition has also been deficient in the last few years. Education in atheism, in denying the existence of ghosts, in the belief of science, and in the revolutionary ideal has been relaxed somewhat. There has not been serious research into the forms of commemorating the dead, which are needed by the people, or into proposals for a substitution, acceptable psychologically by the people.

#### **Many Contributing Factors**

Xu Yuanming [1776 0337 2494] (Head, Office of Agricultural Economics, Institute of Economics): There are many activities of feudal superstition in the society now. The masses believe these are normal commemorative activities, such as asking monks to officiate at funerals, burials, holding memorial ceremony for ancestors, editing genealogical records, etc. Why is this? When many famous persons died, there were always large scale memorials. For some, monuments have been built and/or statutes erected. These facts gave the masses a wrong idea. "Why cannot we, the people, use various forms to commemorate our own ancestors?" In order to express "filial feelings toward mother", some proceeded with burials to give the masses an excuse to carry out superstitious activities.

Shen Jianguo [3088 1696 0948] (Editorial Department, Jianghai Xuekan): Reform, liberization, and the development of a merchandise economy are creating a favorable condition for the eradication of feudal superstition. On the other hand, at present, natural, semi-natural economies still occupy a relatively heavy ratio and the

illiterates and semi-illiterates amount to nearly one-fourth of the population. These are factors contributing to the occurrence of feudal superstitious activities. For example, some people engage in merchandise production in order to try out their "luck." For the majority of farmers, good harvests depend upon favors bestowed by nature to a very large extent. Following the adoption of the family responsibility system, the risk that was borne by the collective body has been transferred onto the shoulders of the family and the individuals. This kind of sudden change in all realms of social living causes some persons to lose equilibrium in their traditional psychology. Furthermore, the party is implementing religious liberalization. Normal religious activities have received protection while not all measures have been coordinated into a whole. Some use this situation as a protective umbrella to proceed with superstitious activities of feudalism to seek good luck for themselves, or to seek consolation from feudal superstitions.

Dai Fukang [2071 4395 1660] (Associate Researcher, Institute of Politics and Law): Superstitious activities are the result of various inducing factors. After reform, liberalization, and relaxation of policy, people's knowledge is not sufficient for them grasp the idea of merchandise economy. Some use their old thinking to view problems. Some foreign phenomena, not innately belonging to a merchandise economy, are viewed as normal and acceptable. Let us give the following three examples: 1) The more people engage in the development of a merchandise economy, the higher their desires become, yet their abilities cannot reach such heights. There are more and more persons whose goals are not to be fulfilled. What is there to do? Some engage in activities of superstition to implore help from gods. 2) Since the lifting of restrictions, many overseas Chinese have returned from Hong Kong, Macao, etc. to mainland to rebuild their ancestral tombs, to repair temples and shrines to create all kinds of shiny red structures and golden statutes, which have very great power of enticement for the masses. 3) In the atmosphere of "in all things looking at the money", some persons who have a

superstitious mind feel uncertain about finding ways to wealth; therefore, they visit diviners, seers, etc. to acquire some information.

Ni Jiazhu [0242 1367 6999] (Associate Researcher, Institute of Economics): In view of long term effects, feudal superstition will necessarily decrease with the growing development of the economy, but within a given period of time, this is not always true. At present, reform and liberalization are progressing in the dark. It is more or less like if a rock is found, let us cross the river; if it is not found, let us stop or we will just tumble. The prospect is by no means clear, at times. Competition has been introduced in business management and this action has increased risks. It is inevitable that some businesses will encounter setbacks and fail. Not a few of those who have been rich first have depended upon accidental factors. Either because of relaxation of policy, or because of lack of competitors at the time, or taking advantage of a contradiction between total demands and total supplies, they have become successful. These inherently unstable conditions put doubts in people's minds and can also induce those who have feudal superstitious thoughts to engage in superstitious activities.

Xu Yuanming: The increase of superstitious activities of feudalism is also related to some dissemination of cultures in motion pictures, television, and dramas, which often include shots and sets depicting feudal superstition. They consciously or unconsciously propagandize feudal and ancestral thoughts. This is common knowledge of all.

Dai Fukang: "A Wreath Under the High Mountain" is indeed a good motion picture, but it also includes a scene in which wine is splashed onto the ground to honor the souls of heroes and another scene in which cigarettes are offered before the martyr's tomb. These scenes have a side-effect of inducing superstitious thoughts in some viewers.

## EAST REGION

### Shanghai's New Educational Reform Measures 40050250b Shanghai JIEFANG RIBAO in Chinese 26 Feb 88 p 1

[Article by Wu Debao [0702 1795 1405]: "New Educational Reform Measures in Shanghai; Suitable for Developing Export-Oriented Economy"]

[Excerpts] In a meeting held yesterday to relay the spirit of the All-China Meeting on the Work of Higher Institutes of Learning and the Meeting of the State Educational Commission, Wang Shenghong [3769 3932 3163], Director of Education and Health, expressed his ideas and views on educational work in Shanghai this year.

In the last 3 years of the Seventh 5-Year Plan, there will be some readjustments in the plan for educational development in Shanghai. In 1990, the enrollment of the ordinary institutes of higher learning in Shanghai will be readjusted from the original figure of 175,000 to 140,000-145,000. Necessary readjustments will also be made on that of adult institutes of higher learning. When the new general scale of development has been decided on, suitable readjustments will be made on the internal administrative levels and the structure of specialized colleges according to the requirements of an export-oriented economy. Some of the specialized schools with favorable conditions will be transformed into 4-year schools for the cultivation of talents of the application type.

Shanghai will deepen its reforms in enrollment and the assignment of graduates. In the enrollment of undergraduates, specialized college students and graduate students, the schools should increase the proportion of those who have practical experience and are still working. The number of those who finance their own education will be increased (from 800 in last year to 1,500 this year). At the same time, a new system will be introduced for the collection of suitable fees. For reforming the system of graduates assignment, the mechanism of competition and market regulation should be introduced so that a market for the supply of talents under the state's planned guidance will be gradually formed and improved. This year, the assignment of 15 percent of the graduates of local institutes of higher learning (medical students and teachers under training excepted) will be subjected to mandatory plans so as to ensure that the essential requirements are met. Furthermore, some schools should be selected for the experiment of job assignment 1 year in advance. This experiment will also be carried out gradually in secondary specialized colleges and technical schools during the reform.

The system of employing teachers and other specialized technicians for schools of various type and at various levels will be implemented on a regular basis.

### Open Competition for Personnel Urged 40050250c Shanghai JIEFANG RIBAO in Chinese 25 Mar 88 p 6

[Article by Shen Ronghua [3038 2837 5478]: "Why Cannot Top-Notch Talents be 'Promoted'?"]

[Excerpts] It is now hard for people to demonstrate their talents, but even harder for top-notch talents to be "promoted."

Why?

The mechanism for the selection and promotion of top-notch talents is now exclusively in the state's hands, while the social mechanism for competition on a basis of equality is nonexistent. Their promotion in China is subject to mandatory plans, and basically decided by the state. Thus the channels for the cultivation of talents are becoming increasingly narrow. Because of the scarcity of opportunities, people's "destiny is decided by other people's one-time choice." Because of the lack of social mechanism for fair competition, many talents are now left in oblivion. To create a new social mechanism, what we need is essentially a talents market under state guidance. This market will provide the location and opportunity for people to display their talents and to compete with one another according to the law of value.

In personnel selection and promotion, the element of "personal judgment" is very strong in the absence of social selection and evaluation. At present, the promotion of personnel is under a "system of selection and promotion by the leadership," or by the leadership according to the administrative affiliations. There is usually a strong undertone of random subjectiveness. This system will not only strangle and bury many top-notch talents in the process of selection and evaluation by favoritism, but also lead to the deterioration of talents. The selection and promotion of talents should be socialized under a unified system of open evaluation for promotion. Only this can help in the liberation of talents from their confinement, in encouraging open competition, and in selecting the good and discarding the bad. It is also easier for those selected and promoted openly to be accepted by their peers and the society.

"Leftist" influence is still very strong in the policy of selection and promotion. Many fine talents have been rejected because of the numerous old rules and conventions. Some young and middle-age backbone elements in science and technology have made many achievements and contributions in recent years. However, because of their somewhat inadequate academic background, prestige, or work experience, they were rejected, while some malicious people have succeeded in taking advantage of the loopholes in our present policies and obtained their good names by deceitful means. We must persistently uphold the principle of seeking truth from facts and judging things by results without the restrictions of

academic background, work experiences, specialization, party affiliations, and considerations of official positions before talents may emerge in large numbers.

9411

**Fujian Forum on Party Building**

40050250a Fuzhou FUJIAN RIBAO in Chinese  
6 Mar 88 p 1

[by Pan Ziqiang [3382 1311 1730]]

[Excerpts] The "Meeting on the Theory of Party Building in the New Age" called by the Organization Department of the Fujian Provincial Party Committee in consultation with the Department of Propaganda, the Provincial Discipline Inspection Commission, and the Party School of the Provincial Party Committee, began its session in the morning of 5 March at the party school.

Jia Qinglin [6328 1987 2651], deputy secretary of the Provincial Party Committee attended and spoke at the meeting. He pointed out: The key to the vigorous development of an export-oriented economy lies in the emancipation of thinking among the party organizations at various levels and among the comrade party members. It also depends on whether they can earnestly translate the spirit of the 13th CPC Congress into action and whether they are capable of following the strategy for developing the coastal economy. The development of commodity economy, the reform, and the opening of the country to the outside world will raise many new demands and many problems requiring further solution in the theory and practice of party building. The broad masses of practical and theoretic workers engaged in party building must feel the urgent need to catch up with the current situation, and have a sense of responsibility for the commission entrusted to them. He emphatically pointed out: All those engaged in party work during the new period must ensure the implementation of the party's basic line. They should explore boldly and conduct the reform persistently so that all construction projects will have greater vitality and a more scientific character, and the party organizations at all levels and all party members will be at the forefront of the reform, the opening of the country to the outside world, and the development of an export-oriented economy in order to guarantee the successful development of the coastal economy.

On the question of the theory of party building in the new age, Comrade Jia Qinglin raised the following three questions for general discussion: first, how to further emancipate the mind and to deepen the reform in the party's construction; second, how to manage the party strictly in order to promote the reform and the opening of the country; and third, how to strengthen the grass-roots party organizations in order to increase the party's vitality.

9411

**Fujian People's Procuratorate Work Report**

40050213b Fuzhou FUJIAN RIBAO in Chinese  
2 Mar 88 p 4

["Summary" of Speech by Chen Yourong [7115 0645 2837], deputy chief, Fujian Provincial People's Procuratorate, at the First Session of the Seventh Fujian Provincial People's Congress, 24 Jan 1988]

[Excerpts] Fellow Delegates:

At this time, I would like to report on the status of procuratorial work in Fujian Province since the First Session of the Sixth Provincial People's Congress.

**1. Strict Investigation and Prosecution of Serious Economic Crimes—To Assure Orderly Progress in Reform and Openness**

During the last 5 years, various provincial procuratorial offices on all levels have pursued, without hesitation, to investigate and prosecute economic crimes in accordance with the law. During this time (up to the end of November 1987, same below), they investigated 3,531 such cases, of which 989 were important and serious crimes, and 2,317 were indictments involving 3,297 persons. The total worth of goods and funds pursued and recovered amounted to 69.4 million yuan.

In 1986, 134 cases of economic crimes were found in the supply system. Subsequent investigation recovered ill-gotten gains totalling 25 million yuan. In 1987, 139 cases involving theft and tax avoidance were investigated and properly dealt with, thereby recovering 1.03 million yuan in taxes for the state.

**2. Attack on Felonious Criminal Activities To Secure Public Safety and Stability**

Over the past 5 years, provincial procuratorial offices investigated 51,677 persons arrested with warrants, brought 31,716 indictments against 50,483 persons, discovered unauthorized arrest of 5,353 persons, handled 155 uncharged cases involving 415 persons, and pursued the arrests of 1,547 persons and followup indictments of 647 persons. Moreover, procuratorial offices on all levels initiated active supervision of police department investigation and court trial activity—how trial and sentencing of criminal cases were carried out, and how supervision of jails, detention centers, labor and reform camps and labor and education centers was performed. During the past 5 years, they also brought to the attention of the police and the courts, their correction, both verbally and in writing, of unlawful views held by individuals in 260 and 88 cases (instances) respectively, and brought charges in 202 cases involving 220 persons. They also corrected rampant abuse of authority by cadres and police in 148 cases involving 156 persons in corrections institutions, in accordance with the law, and tightened supervision. They were also assigned to handle 635

repeat criminals from the ranks of "two labor" individuals, and initiated charges in 228 cases. At detention centers, labor reform and labor education units, prosecuting offices have corrected mistaken opinions and views regarding the law among inmates, both verbally and in writing, in over 1,600 cases (instances), thereby promoting a modern approach to handling such matters, and assuring proper observance of the law.

In prosecution matters affecting the forestry industry, procuratorial offices investigated and established 508 cases of forest destruction crimes, issued arrest warrants for 925 persons, brought indictments in 907 cases involving 757 persons, and recovered economic losses totalling 1.05 million yuan.

### 3. Investigation and Punishment of Crimes of Official Misconduct and Crimes Infringing on Rights of Citizens—To Protect the State and Assure the Legal Rights of Its People

During the past 5 years, procuratorial offices have investigated 742 cases, arrested 537 persons, and brought indictments in 513 cases involving 726 persons. During case processing, the focus was on those where coerced confession, illegal detention, false accusations, and other measures infringing on the citizen's personal and civil rights had been used, and on cases involving dereliction of duty, all of which registered 454 cases in 5 years, and comprising 61.72 percent of the established total.

Another important duty of the procuratorial offices is proper processing of citizens' complaints and grievances, to protect their civil rights. During the past 5 years, we have handled 204,437 letters and visits from the public, in accordance with the principle of "overall management, shared responsibility." Of these, over 30,000 provided leads for resolving economic and felonious crimes by procuratorial offices in 20,253 cases. To resolve the difficulty the masses have in filing charges and grievances themselves, the leadership at various procuratorial offices adopted the system of 1-day openhouse at the office of the chief prosecutor, for charges and grievances from the masses to be filed. This approach resolved a problem for both the Party and the people. To realize the policy of the state and the Party, during the period beginning July 1986 through April 1987, procuratorial offices on all levels reopened some old (historical) cases that were dismissed earlier, and corrected 410 of them, in accordance with the law.

### 4. Coordination of Special Features of Procuratorial Work With an Active Program of Comprehensive Action

During the past 5 years, provincial procuratorial offices closely coordinated their prosecution duties with active participation in a comprehensive public safety program, paying special attention to the following activities:

a. Coordination of case prosecution with a focus on existing problems, making prosecution suggestions to assist the case-originating unit to establish and strengthen a system of rules and regulations to close gaps and eliminate hidden problems.

b. Coordination of prosecution activities to educate the public on the legal system, with a program concentrating on 1) typical case demonstrations that show the results of case prosecution, using exhibits, information booths, printed material, and newspaper articles; 2) presentation of information about the legal system as it was during different historical periods for comparison and publicity; and 3) use of court appearances to support indictments and attack crime, while using cases to explain the law, and educate the masses on the legal system.

c. Followup investigation of persons involved in dismissed cases, in collaboration with factory, neighborhood, village and other bases, to provide proper education and facilitate correction of incorrect attitudes in such persons.

### 5. Firm Adherence to Reform and Strengthened Self-Improvement To Raise the Fighting Capacity of the Prosecution Force

In the last 5 years, especially the last 2, procuratorial offices on all levels have made some bold explorations into areas such as unit staff building and strengthened legal supervision and understanding. Examples are requesting that a procurator's office be set up in a related unit or agency, or hiring a procurator liaison officer at some rural enterprise. Some procuratorial offices require that control of cases under investigation remain in the originating office, and to improve the efficiency of case processing, are experimenting with a division-of-labor approach in these situations.

In the area of occupational work, besides firm adherence to regular on-the-job training, procuratorial offices on all levels have also adopted a multi-channel, multi-layer and multi-form job training program to nurture a large group of specialized cadres. At the same time, to gradually improve the educational and cultural level of the procuratorial force, they actively created conditions encouraging cadres and police to participate in college education programs for adults offered through the electronic media, and in extracurricular study courses.

Fellow delegates, since the First Session of the Sixth People's Congress, procuratorial work in Fujian Province has reaped great results. But some deficiencies and problems still remain. After this meeting, we expect to take another step forward to study and effect the Party's 13 Papers as well as the spirit of the provincial committee's working conference, to carry out this session's resolutions and to follow closely the preliminary phase of socialist theory to strengthen and reform prosecution work. In the economics area at present, some deeply hidden economic crime elements have yet to be exposed.

New economic crimes continue to surface—operations that are even more secretive and sly. Public safety conditions are still complex, and many unstable factors still remain. The number of serious and malicious cases continue to rise, unaffected by the pressure to bring them down. Crimes of official misconduct and crimes infringing on the civil rights of citizens still take place from time to time.

5292

### **Fujian People's Higher Court Work Report**

40050213a Fuzhou FUJIAN RIBAO in Chinese 2 Mar 88 p 4

["Summary" of Speech by Chen Xinxu [7115 2450 4423], deputy chief, Fujian Provincial People's Higher Court, presented at the First Session of the Seventh Fujian Provincial People's Congress, 24 Jan 1988]

[Excerpts] Fellow Delegates:

Since the Sixth Provincial People's Congress, the people's courts on all levels throughout the province have accomplished a great deal of work. I will now report on the highlights of these accomplishments.

#### **1. Strict Punishment of Serious Felonious Crimes and Serious Economic Crimes—To Assure Social Stability and Economic Order**

From August 1983 to the end of 1987, a total of 21,521 persons were tried for 7 kinds of crimes that endangered public safety, involving vagrant gangs, murder, rape, robbery, etc. In the past few years, the provincial people's courts also used their legal weapons to wage war on robberies and thefts, to investigate and stop prostitution, smuggling, sale of pornographic materials, kidnapping, and other criminal activities. They also initiated trials in cases involving specific topics in the war against crime, and administered severe punishment to their leadership elements. At the same time that these large-scale attacks were made, the courts continued to process ongoing serious cases, most of which were quickly disposed of within a month's time.

During this same period, people's courts throughout the province handled a total of 7,187 cases of various economic crimes involving 8,309 persons who were tried and sentenced, and a loss of 51.51 million yuan altogether was recovered for the state.

At the same time that this "two-prong" war was initiated, people's courts on all levels fully displayed their trial skills, and actively participated in coordinated efforts to maintain public safety, with particular attention to broadening the social effectiveness of court case handling. From August 1983 to the end of 1987, provincial courts selected typical cases and held mass public trials on 2,583 occasions when 8,467 cases altogether, involving 12,895 persons, were processed.

#### **2. Strengthened Trial Work in Civil and Economic Cases and Protection of the Legal Rights of Legal Persons and Citizens—To Serve Reform and Economic Construction**

From 1983 to the end of 1987, people's courts province-wide tried and settled 106,585 one-hearing civil cases, 10,538 two-hearing civil cases, 18,124 one-hearing economic disputes, and 926 two-hearing economic disputes involving a total sum of more than 820 million yuan. Outstanding achievements were noted in the following areas:

##### **a. Strengthened buildup at the base to establish a healthy people's court.**

A total of 407 people's courts have been set up throughout the province to try numerous civil cases, some simple economic disputes, and criminal cases brought to court by the injured parties themselves. They also provided guidance to arbitrating units at the lower level to help resolve large numbers of disputes between people, actively initiated programs to educate the public on the legal system, and coordinated case handling to promote public safety.

##### **b. Active processing of assigned cases to achieve the "three priorities."**

The first priority was arbitrating various disputes that directly affect production, and those related to "the three kinds of enterprises that are either partially or wholly foreign-owned." The second priority was settling contradictory cases susceptible to further incitement by nipping them in the bud early on. From 1984 to the end of 1987, local people's courts tried 3,464 cases evoked by disputes between people, stopped or prevented 789 instances of mass violence, and saved 509 involved persons from the brink of suicide. The third priority was hearing and trying cases involving overseas Chinese, including those residing in Hongkong, Macao and Taiwan, with particular attention to protecting the rights of those concerned.

##### **c. Providing legal services and protection of the law for economic construction.**

People's courts on all levels overcame the practice of simple case processing—handling cases only as they arose. Through trials of typical cases to explain the law, the courts extended their influence in a program to educate and help the masses and related law enforcement agencies to clearly understand the legal limits in civil cases and money matter situations, using the law as the standard to govern their actions. They also proposed prosecuting strategies, assisted related law enforcing agencies to strengthen management for maximum effectiveness in case processing, by filling the gaps and crevices. Furthermore, outstanding contract adherence problems, encountered increasingly in recent years in matters such as enterprise credit and debt, settlement of

agricultural loans, contract observance in rural projects etc., were handled by the people's courts in various localities in accordance with the law.

By conducting forestry trials, people's courts throughout the province struck a blow at criminal elements bent on forest destruction, and resolved a large number of forestry disputes. From 1983 to the end of 1987, a total of 1,269 forestry crime cases were tried, and 1910 of them involving disputes on forestry contracts, forest ownership, and forest administration were settled, recovering for the state more than 4.5 million yuan covering more than 760,000 mu of disputed forest. These results had a definite effect on conserving forest resources, and on stimulating development in forestry production.

Administrative trials is a new task assumed by the courts. Since its inception the end of 1986, 115 administrative cases of a varied nature have been processed by the courts.

### 3. Efficient Policy and Case Followup with Mobilization of Active Factors To Assure Public Safety and Cooperation

During the last 5 years, over 100,000 cases involving crimes by underground Party members, the United Front, and political cases of long standing that go back to 1958 were investigated or re-investigated and tried or retried. A large number of falsely charged and wronged cases were retried in accordance with reason and the law, based on facts and correction of wrongs wherever they existed.

### 4. Strict Observance of the Law To Improve Quality of Case Handling

From 1983 to the end of 1987, people's courts throughout the province discovered during trials of criminal cases, that some cases involving 277 persons had to be dismissed subsequently, because they were not found to have committed any crime. In trials of civil cases and those involving economic disputes over money matters, people's courts on all levels adhered strictly to requirements where facts, proof, right and wrong, and responsibility were definite and clearcut, and they made their judicial decisions in accordance with the law. To assure the quality of case trials, the higher courts have strengthened their trial supervision work. People's courts on all levels have established a strict system of trial responsibility by periodic self examination, case critique, and review of experiences to discover problems that may be corrected in time. With respect to some difficult cases, a focus-on-the-problem approach is taken. From 1983 to the end of 1987, a total of 20,417 civil cases, 4,051 cases of economic dispute, and 564 miscellaneous cases were handled in a way that assured the legal right and benefit of the parties concerned.

### 5. Strengthened Buildup of the Court To Meet Needs of Development

In early 1985, the People's Supreme Court created National Sparetime Colleges of Law of the Court for cadres throughout the nation. By formal examination, Fujian Province had admitted two classes totalling 1,827 court cadres for additional training. At the same time, various types of short courses were conducted to train and rotate 4,347 cadres, an experience that improved their work quality.

Fellow delegates, our work in the past 5 years has produced definite results, though many weak areas and problems still exist. In our trial work, we may not have investigated new situations and problems thoroughly. Work in some cases was not tight enough; in others, quality was not very good. Processing of some civil and economic cases, and of complaints for action, has not been as timely as it should; some criminal cases have exceeded the statute of limitations; and, the quality of court workers continue to need further improvement.

5292

## SOUTHWEST REGION

### Sichuan Party Leader on Importance of Party Building Amid Reform

40050244c Chengdu SICHUAN RIBAO in Chinese  
28 Mar 88 p 1

[Report on speech by Gu Jinchi [7357 6855 3069] to the Sichuan Provincial CPC Committee on 26 March 88 by reporters Lin Lin [2651 3829] and Gao Jian [7559 6943]: "Ideological Liberation Central To Party Building"]

[Excerpts] An experience exchange seminar on the education of party members was held in Ziyang County on 25 March by the Sichuan Provincial CPC Committee. At a general meeting on 26 March, Deputy Secretary Gu Jinchi of the Sichuan Provincial CPC Committee made a speech in which he discussed the several major tasks in party building in Sichuan this year.

Gu Jinchi began by discussing ideological construction in the party. He said, "Ideological construction must embody the party's basic line completely and help party members grasp the 'one center, two basic points.' In the midst of reform, opening up, and developing a socialist commodity economy, we must take pains to strengthen the party's ideological construction, which must be integrated with and serve the central task of reform, opening up, and creating a socialist commodity economy. Based on the Sichuan Provincial CPC Committee's plan, we should zero in on the following at present:

"1. Study and implement in depth the spirit of the 13th NPC, focusing on helping party members further liberate their ideology and raising their initiative to carry out the party's basic line and further liberate productive forces. This is the top priority in ideological construction this year.

"2. Help party members understand and handle party-state separation and the leader responsibility system correctly in enterprises and units as part of political structural reform.

"3. All CPC members must interest themselves closely in the building of a socialist spiritual civilization throughout society. In particular, they must play an exemplary vanguard role in the strengthening of the construction of all kinds of cultural units at the grassroots, the nurturing of a new generation with the 'four haves,' the emphasis on culture, and the development of a party style.

"4. Actively support and most enthusiastically participate in the establishment of a social consultation and dialogue system. Tackle this as a priority."

Concerning organizational construction, Comrade Gu Jinchi said, "We must intensify party building even as we reform and open up. We must strengthen and improve party leadership through a series of reforms in party building. 1) Manage the party strictly. Tighten up education and institutions. Rigorously enforce discipline. Stiffen management. Build up a corps of party members who can stand the test of office, reform, and the policy of opening up to the outside world. 2) Reform party building continuously by revolving it closely around economic and political structural reforms. Vigorously promote functional changes in party organs. 3) Implement the principle of the 'four transformations' of cadres. In the spirit of 'reinforce, improve, adjust properly, and stress stability,' strengthen the build-up of leading groups at all levels. Successfully adjust leading groups in party and state organs in conjunction with leadership succession."

Referring to party style construction, Gu Jinchi said that we must enforce the principle of managing the party strictly and solve the existing glaring problems in party style in earnest. This year we must focus on the investigation of cases in which party members are found to be corrupt, steal, take and solicit bribes, neglect their duty, and abuse their office. Leading comrades on party committees at all levels must devote time and effort to their investigation and take effective practical measures to mesh reform and institutional construction with party building.

The general meeting on 26 March was attended by more than 200 people, including Xu Chuan [6079 1557], standing committee member and director of the Propaganda Department, Sichuan CPC Committee; responsible comrades from the Sichuan Discipline Inspection Commission and the Organization Department, both under the Sichuan CPC Committee; secretaries in charge of party work from all municipalities, prefectures, and autonomous prefectures; responsible comrades from discipline inspection commissions and organization and propaganda departments, and responsible comrades from relevant provincial departments.

12581

**Sichuan People's Congress Appointments**  
*40050244a Chengdu SICHUAN RIBAO in Chinese*  
18 Mar 88 p 2

[Text] The second meeting of the standing committee of the Seventh Sichuan People's Congress resolved to make the following appointments as submitted by Governor Zhang Haoruo [1728 4110 5387]:

|                                |                                                           |
|--------------------------------|-----------------------------------------------------------|
| Lu Tiecheng [4151 6993 1004]   | Director of Sichuan Education Commission                  |
| Wu Xuede [1566 1331 1795]      | Director of the Sichuan Public Security Bureau            |
| Zheng Wenju [6774 2429 5282]   | Director of the Sichuan Judicial Department               |
| Sun Zhiqiang [1327 1807 1730]  | Chairman of the Nationality Affairs Commission            |
| Cheng Yingnan [4453 5391 3948] | Director of the Sichuan Supervision Department            |
| Shen Guojun [3088 0948 0193]   | Director of the Sichuan Labor and Personnel Office        |
| Fu Daozheng [0102 6670 2398]   | Director of the Sichuan Forestry Department               |
| Zhang Tinghan [1728 1694 5060] | Chairman of the Sichuan Science and Technology Commission |
| Li Dachang [2621 6671 2490]    | Director of the Sichuan Finance Bureau                    |

12581

**Biographical Notes on Sichuan Governor, Vice Governors**

*40050244b Chengdu SICHUAN RIBAO in Chinese*  
1 Feb 88 p 2

[Text] Comrade Zhang Haoruo [1728 4110 5387]

Zhang Haoruo, male, Han nationality. Born, August 1932 in Gong County, Henan Province. Joined the CPC, April 1950. Began working, April 1949. Graduated from the Chemical Engineering Department, Qinghua University. Attended Qinghua University, Department of Chemical Engineering, 1949-1952. After attending a Russian training class in the Ministry of Petroleum Industry, he worked as a trainee and section member in the preparatory office of the Lanzhou Oil Refinery and Beijing Petroleum Bureau, 1952-1954. Trainee, Soviet oil refinery, 1954-56. Engineer, workshop director, plant director, and deputy chief engineer at a branch of the Lanzhou Oil Refinery, 1956-1963. Office chief, Production Department, Ministry of Petroleum Industry; deputy director, Office of Oil Refining and Chemical Industry, Ministry of Fuel and Chemical Industries; deputy director and director, Planning Department, Ministry of Chemical Industry; director, Science and Technology

Bureau, State Energy Commission, 1963-1982. Member of the preparatory committee, deputy general manager, and member of the CPC Committee, China Petrochemical Corporation, 1982-1986. Vice minister and member of the CPC committee, Ministry of Foreign Economic Relations and Trade, 1986-87. Deputy secretary of the Sichuan CPC Committee, December 1987 to present.

**Comrade Xie Shijie [6200 0013 2638]**

Xie Shijie, male, Han nationality. Born, August 1934 in Liangping County, Sichuan Province. Joined the CPC, December 1954. Began working, September 1951. Graduated from college and a special 1-year soil-fertilizer course at Southwest Agricultural College.

Clerk, Department of Agriculture and Forestry in Xikang Province, Yaan Prefectural Commissioner's Office, and Irrigation and Water Conservancy Office, September 1951-August 1958. Completed special 1-year course in soil fertilizers at the Southwest Agricultural College. Director, Office of the Yaan Agricultural School; secretary and deputy director, Office of the Department of Agriculture and Industry, Yaan Prefectural CPC Committee, August 1958-July 1971. Standing committee member and office director, Yaan Prefectural CPC Committee, July 1971-December 1975. Secretary of the Rongjing County CPC Committee and concurrently chairman of the County Revolutionary Committee, December 1975-September 1980. Deputy secretary of the Yaan Prefectural CPC Committee and concurrently director of the Agricultural Office, September 1980-July 1983. Secretary of the Yaan Prefectural CPC Committee, July 1983-January 1985. Member of the standing committee of the Yaan Prefectural CPC Committee and Vice Governor, January 1985 to present.

**Comrade Luo Tongda [5012 6639 6671]**

Luo Tongda, male, Tibetan nationality. Born, April 1933 in Yajiang County, Sichuan Province. Joined the CPC, April 1955. Began working, April 1950. Graduated from Kangding Normal College. Translator, Yajiang Military Depot (18th Army), PLA, April 1950-December 1950. Translator and secretary, Yajiang County government, January 1951-1956. Deputy county chief and acting county chief, Yajiang County; secretary of the county CPC committee and concurrently county chief, 1956-May 1963. Secretary, Xiangcheng County CPC Committee, and concurrently county chief, May 1963-May 1966. Secretary of the secretariat of the Ganzi Prefectural CPC Committee and concurrently first secretary of the Xiangcheng County CPC Committee, May 1966-September 1972. Deputy director of the production command office of the Ganzi Prefectural Revolutionary Committee, September 1972-September 1973. Deputy secretary of the Ganzi Prefectural CPC Committee and concurrently secretary of the Luohuo County CPC Committee and chairman of the county revolutionary committee, September 1973-July 1974. First secretary of the Ganzi Prefectural CPC Committee and concurrently chairman

of the Prefectural People's Congress, July 1974-November 1982. Vice Governor and concurrently deputy secretary of the Nationality Work Committee [min gong wei] of the Sichuan CPC Committee and chairman of the Nationality Affairs Commission [min wei]. Member of the Fourth Sichuan CPC Committee.

**Comrade Ma Lin [7456 7792]**

Ma Lin, male, Han nationality. Born, October 1935 in Yacheng County, Heilongjiang Province. Joined CPC, July 1980. Began working, September 1957. Graduated from the Department of Electrical Engineering, Tangshan Railways College. Research trainee, Railway Science Institute, September 1957-October 1960. Technician, Tianxin Electric Locomotive Plant, Hunan, October 1960-October 1962. Technician handling the electrification of the entire stretch of railway, Xian Railway Bureau, October 1962-October 1968. Maintenance technician, engineer, chief engineer, Baoji, Xian, October 1968-July 1980. Deputy chief engineer, Xian Railway Bureau, Baoji branch, July 1980-March 1983. Deputy Director, Xian Railway Bureau, March 1983-January 1984. Director and deputy secretary of the CPC committee, Chengdu Railway Bureau, January 1984-May 1985. Vice governor of the Sichuan People's Government, May 1985 to present.

**Comrade Han Banyan [7281 6721 1750]**

Han Banyan, male, Hui nationality. Born January 1931 in Chengdu, Sichuan Province. Joined CPC, October 1952. Began working, August 1952. Graduated from the Electrical Engineering Department, Sichuan University, and the graduate school of Harbin Industrial University. Attended the party and league training course, the fourth unit, Southwest Revolutionary University, August-October 1952. Attended graduate school, Harbin Industrial University, October 1952-July 1955. Tutor, lecturer, secretary of the general departmental branch, and registrar, Chengdu University of Science and Technology, July 1955-April 1978. Vice president and secretary of the CPC committee, Chengdu University of Science and Technology, April 1978-November 1984. Deputy director, Propaganda Department, Sichuan Provincial CPC Committee and concurrently deputy head, Sichuan Education Leading Group, November 1984-July 1987. Concurrently director and secretary of the CPC committee, Higher Education Bureau, November 1984-November 1985. Chairman and secretary of the CPC Committee, Sichuan Education Commission, July 1987 to present. Deputy to the 13th NPC.

**Comrade Liu Changjie [0491 2490 2638]**

Liu Changjie, male, Han nationality. Born August 1933. Joined CPC, January 1952. Began working, December 1949. Senior middle school graduate. Secretary, district Youth League committee; member in charge of organi

zational work and secretary, district CPC committee; deputy director, Organization Department and director, Propaganda Department, county CPC committee, December 1949-September 1960. Deputy secretary, Dazhu County CPC Committee, September 1960-March 1965. Secretary in charge of organizational work, Political Department, Foreign Cultural Commission under the CPC Central Committee, March 1965-January 1970. Chief, political work section, Prefectural Revolutionary Committee; member and deputy general secretary, Prefectural CPC Committee, January 1970-October 1973. Secretary of the Prefectural CPC Committee, Da County; commissioner, administrative office; leader of a Chinese delegation to Mozambique to study agriculture and animal husbandry; leader of a delegation of experts, October 1973-January 1983. Director, secretary of the leading party group, Sichuan Agricultural and Animal Husbandry Office, January 1983 to present. Concurrently director and secretary of the leading party group branch, Township and Town Enterprises Bureau, November 1984-April 1987. Member, Fourth Sichuan CPC Committee.

**Comrade Jin Hongsheng [6855 3163 3922]**

Jin Hongsheng, male, Han nationality. Born, May 1938 in Nantong Shi, Jiangsu Province. Joined CPC, January 1966. Began working, February 1955. Graduated from the Yangzhou Finance School, Ministry of Finance. Clerk, section member, Sichuan Finance Department, February 1955-September 1961. Secretary, Banking and Finance Office, Finance and Trade Office, September 1961-August 1970. Secretary, Office of the Sichuan Finance Department, August 1970-December 1974. Deputy director, Enterprise Finance Office, Sichuan Finance Department, December 1974-June 1977. Deputy director, Sichuan Finance Department, June 1977-October 1979. Vice Chairman, Sichuan Import and Export Commission, October 1979-March 1983. General manager and secretary of the leading party group branch, Sichuan Changjiang Enterprise Corporation; director and secretary of the leading party group, Sichuan Economic and Trade Department, March 1983 to present.

12581

**Editorial Discusses Gold Dispute With U.S.**  
40060273 Taipei CHING-CHI JIH-PAO in Chinese  
28 Apr 88 p 2

[Editorial: "An Appraisal of the Sino-American Gold Dispute"]

[Text] As Sino-U.S. trade talks loom, an advance skirmish has erupted between the two sides—a controversy over gold. To reduce the imbalance in Sino-American trade, we have made a number of large gold purchases from the United States. The Americans, however, categorically deny that these purchases help to reduce our trade deficit with the United States, claiming instead that the purchases merely serve to reduce the Central Bank's reserves of foreign exchange (U.S. dollars) and to increase its gold reserves by the same amount, and are therefore meaningless. This newspaper discussed the issue in an editorial published on the 25th of April. But the controversy involves U.S. gold policy. As the saying goes, "Knowing oneself and one's enemy assures victory." So we submit the following analysis of American gold policy to our fellow citizens, especially those who will be representing our country in the coming Sino-American trade talks, for consideration.

Foreign news agencies report that Taiwan has indeed imported large quantities of gold recently. Based on reports from Japanese metal traders in Taiwan, NIHON KEIZAI SHIMBUN estimates that Taiwan imported as much as 160 metric tons of gold in 1987 (of which the government accounted for 57 metric tons) and will increase those imports to 250-300 metric tons in 1988. The ASIAN WALL STREET JOURNAL reports that Taiwan imported 100-120 metric tons of gold in 1987 and estimates that the level will rise to 140-180 metric tons in 1988. In recent years, gold production in the free world has totaled only 1,200 tons annually, so Taiwan's gold purchases clearly have had considerable impact on world gold markets. If the general reports are true, Taiwan's recent gold purchases must have gone through the U.S. market, and that complicates things. For the United States is not a major gold producing nation, averaging only 100-some metric tons a year. If the above estimate of 250-300 metric tons for 1988 is correct, then the United States in fact cannot supply most of the purchases. Thus, in the American view, our gold imports will not do much to balance Sino-U.S. trade.

Second, Chinese officials claim that gold is a common commodity and that increasing gold imports naturally helps reduce our trade surplus. Historically, however, gold has not been treated as a common commodity but rather has served as an international medium of exchange, actually functioned as a global currency during the days of the gold standard, and thus is unique.

From the end of World War II to the first half of the 1960s, the United States led the entire world militarily, politically, economically, and financially. At that time, the U.S. dollar was as accepted, as with gold, as an

international currency, and the United States voluntarily undertook to redeem dollars in gold. By the late 1960s, however, the United States had markedly declined in power and was no longer able to continue redeeming dollars in gold. Yet the United States was unwilling to admit this fact, so it took a number of famous American economists to lead the movement for "demonetization," which hoped to abolish gold's monetary role. Our government's recent insistence that gold is merely a common commodity may be seen as a refrain of this theme.

But the American demonetization movement actually went nowhere. American (i.e., U.S. government) gold reserves now total 8,000-plus metric tons, ranking first in the world. West Germany, with approximately 3,000 metric tons, is second, and France and Switzerland each have about 2,600 metric tons. In short, both the governments and the people of European industrial countries love gold, so it has proved impossible to deprive the metal of its monetary function. Fondness for gold is especially pronounced in France, which has learned from experience in the Napoleonic wars, the Franco-Prussian war, and World Wars I and II that gold is actually a very effective tool in preventing losses from inflation.

The industrialized nation with the smallest gold reserves is Japan. During the 1950s and 1960s, when Japan was experiencing her highest growth rates, she suffered chronic international balance of trade deficits and naturally was unable to replenish her gold reserves. And she does not dare do so now, even though, having run huge trade surpluses during the last few years, she has that capability and could even surpass the reserves of West Germany and France. For she naturally understands that a big gold purchasing campaign would certainly infuriate the United States.

American power, as noted above, has greatly declined, and the United States became a debtor nation in 1985. Thus it will become increasingly difficult to maintain the dollar's position as the only international currency. Under these conditions, big gold purchases and reserve build-ups by nations running huge surpluses with the United States can only serve to weaken the dollar, which is something the United States greatly abhors. We hope that our government and our people understand current American gold policy.

When the gold controversy erupted, Chinese officials repeatedly claimed that gold is a common commodity. This view ought to represent our official policy on the matter. Foreign exchange regulations have been shorn of the old sections relating to gold, which indicates that we do in fact treat gold as a common commodity. And since that is our policy, we naturally should be able to import and export gold freely. That is how things work in the United States, Japan, West Germany and other countries that permit free trading of foreign exchange. Yet while we now permit gold imports, we strictly control exports of the metal. Each person is permitted to take the

equivalent of \$5 million in funds (converted foreign exchange) out of the country per year, so each of us should also be allowed take out at least this amount in gold every year. Some people might be worried that decontrol of gold exports will create a huge illegal outflow of gold, but actually the high price of gold on Taiwan will keep this from happening. Our officials claim that gold is a common commodity, yet they strictly control gold exports. This contradictory stand will prove very difficult to explain to the world.

12431

### Ministry Reports Decline in First Quarter Exports, Trade Surplus

40060271 Taipei CHING-CHI JIH-PAO in Chinese  
16 Apr 88 p 2

[Text] Vincent C. Siew [Xiao Wan-chang; 5618 9001 7022], director-general of the Board of Foreign Trade of the Ministry of Economic Affairs said yesterday that the rise in the American trade deficit during February will increase protectionist sentiment in the U.S. Congress and that the Group of Seven Industrialized Nations has been adding fuel to the fire, such that the New Taiwan [NT] dollar may very well be pressured to appreciate. But in view of the fact that the decline in our exports became increasingly pronounced during the first quarter, the NT dollar cannot climb any further. We must continue to seek ways to stabilize our currency.

Director-General Siew admitted that the worsening of the American trade deficit during February certainly is bad news. Still, he added, if we look at the trade figures for both China and the United States, it is patently clear that China's imports and exports are gradually coming into balance and that the sharp appreciation of the NT dollar over the past 2 years has definitely dealt a big blow to our exports and threatens to adversely affect the growth of our entire economy. Therefore, he said, we must make these concrete facts known to the industrialized nations, including the United States, and forcefully justify our case.

Analyzing China's trade during the first quarter of this year, Siew identified the following prominent trends.

1. The effects of the rise of the NT dollar are gradually becoming apparent. In NT dollar terms, our exports declined by 0.8 percent and our imports rose 32.8 percent during the quarter. So it is now clear that the higher NT dollar is causing our exports to stagnate.
2. The growth rate of imports greatly exceeds that of exports, so our huge trade surplus has declined. During the first quarter, the growth of imports (63 percent) was 3 times that of exports (21.9 percent), and our trade surplus declined to \$2,218.8 million from \$4,199.3 million during the same period last year. And the drop was greatest in trade with the United States.

3. Our foreign trade is gradually balancing. During the month of March, the trade surplus was only \$163 million, imports and exports were about the same in value terms, so pressure from the rapid growth in foreign reserves has been greatly reduced.

4. Our trade surplus with the United States has been greatly reduced, to only \$298 million during the month of March, the lowest level in many years.

12431

### President Li Teng-hui Termed Former Communist Party Member

40050286 Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 186, 16 Mar 88 pp 22-24

[Text] Maybe you won't believe it, but this is an unsailable fact. Li Teng-hui, Taiwan's "president" and acting chairman of the Kuomintang, was a clandestine member of the Communist Party of China who secretly joined the party when he took part in the Student Study Society at Taiwan University. Li Teng-hui has revealed that the person who introduced him to membership in the Communist Party was Wu K'o-t'ai [0702 0344 3141] who is now in mainland China...

### Li Teng-hui's "Party Withdrawal Incident"

The impassive and weak-looking Li Teng-hui is actually just an undemonstrative person. His old friends frequently use the Taiwanese word for "tough" to describe his steadfastness. They consider Li Teng-hui to be a "tough" person, responsible and firm, who sticks to his principles.

But what most attests to Li Teng-hui's "toughness" is an extremely big secret that they have kept for a long time: Li Teng-hui's withdrawal from the Party.

The Party that Li Teng-hui withdrew from was not the Chinese Kuomintang, but the CPC operating clandestinely in Taiwan!

A middle school classmate of Li Teng-hui at Tanshui said that Li Teng-hui was not at all outstanding in middle school, and that he had never imagined that that he would be so full of fervor during his college days. A fellow student of Li Teng-hui at Taiwan University said that Li Teng-hui had a good head on his shoulders, was industrious and spoke little; however, his ideological consciousness was not compromising in the slightest, and he did not like fierce arguments.

When he was studying agricultural economics at Taiwan University, Li lived together with six or seven schoolmates in rented quarters off campus. This happened to be just around the time of the recovery of Taiwan when the political situation was in tumult, Kuomintang corruption was rampant, the Kuomintang swindled the people and lost a lot of popular support, and socialism

was gradually raising its head in China. In order to devote himself to the transformation and building of China, Li Teng-hui, who was then studying agricultural economics, and several fellow students entered a secret Taiwan Communist group.

They said that Li Teng-hui's motives at the time were pure: he hoped to take the scholarly road, using sedulous scholarship as a means of making a contribution to the Chinese peasants. At that time, however, the main work of the Taiwan Communist Party was to instigate a peasant's movement, and this was explicitly stated in the Party program at the same time. This pitted Li Teng-hui against himself. If he obeyed the Party program, he would go against his own desires, and if he stuck to his own espousal of national salvation through scholarship, this could hardly be reconciled with the demands of the Party. After much turning over of the matter in his mind, Li Teng-hui finally decided to withdraw from the Party.

At that time, the secret group did not use compulsion; it accepted Li Teng-hui's request and convened a meeting to discuss it. Since Li Teng-hui was so adamant, the higher-ups had no choice but to let him withdraw from the party out of concern for the overall situation. However, both sides set the condition that they would mutually observe secrecy.

After the Kuomintang government collapsed and moved to Taiwan, it made major efforts to wipe out the Taiwan Communist Party. Many of Li Teng-hui's former comrades were arrested, jailed, and shot. But luckily, Li Teng-hui was not involved.

#### **Li Teng-hui Reveals the Inside Story to Chiang Ching-kuo**

A high ranking Taiwanese official revealed to this reporter that Li Teng-hui had disclosed to Chiang Ching-kuo all the pertinent details of the matter.

Li Teng-hui said that he had been a secret member of the Chinese Communist Party in Taiwan.

The leading organ of the CPC in Taiwan at that time was the Taiwan Provincial Work Committee.

Li Teng-hui said that when he was a student at Taiwan University, he had joined a CPC peripheral organization, the Student Study Society, where he had studied socialism. This had led to his recruitment as a member of the CPC.

#### **Person Who Introduced Li Teng-hui Into Party Now on the Mainland**

Li Teng-hui disclosed that the person who had introduced him to membership in the Communist Party of China was named Wu K'o-t'ai. Later on, owing to the destruction of the Taiwan Communist Party by the

Kuomintang, his status was revealed, and he sneaked back to the Chinese mainland. Now he may be one of the ranking members of the CPC working against Taiwan.

By the eve of his graduation from university, Li Teng-hui had lost interest in politics and still desired to leave the Party. After studying the matter, the CPC organization on Taiwan agreed to his withdrawal from the Party. Li Teng-hui disclosed that at that time the CPC sent a person named Xu Maode [6079 2021 1795] to Taiwan to have a heart-to-heart talk with Li Teng-hui about his withdrawal from the Party. According to Li Teng-hui's subsequent recollection of events to Chiang Ching-kuo, Xu Maode said to him then that the CPC certainly would not publicize Li Teng-hui's secret membership in the Party. He also said that Li Teng-hui's departure from the CPC was not the same thing as opposing the CPC, and it was hoped that for his part Li Teng-hui would be an enlightened patriot.

After Li Teng-hui withdrew from the party, all CPC members who had revealed their identities to Li Teng-hui were quickly withdrawn to the China mainland.

Moreover, the Communist persons responsible at the time for maintaining contact with Li Teng-hui had used the "single line contact" method that the Chinese Communists habitually used in clandestine operations. By this it is meant one person contacted one other; consequently, the number of CPC members of whom Li Teng-hui had direct knowledge was, in fact, not large. Furthermore, at that time, Li Teng-hui also kept his promise and did not betray them.

Nevertheless, quite a few of the fellow students who had joined the Study Society with Li Teng-hui were unable to escape and were killed by the Kuomintang during the late 1940's and early 1950's.

#### **Dependability and Responsibility Gains Recognition by Higher Authority**

Sure enough, Li Teng-hui was a "tough" Li Teng-hui. Even though he had withdrawn from the Party, he still held fast to his ideals. Following graduation in 1947 from the Agricultural Economics Department of Taiwan University, he remained at the university to teach, later going to the United States for advanced studies. He studied at Iowa State University for a short time; and, following his return to Taiwan, he worked first in the Taiwan Provincial "Department of Agriculture and Forestry," and then in the "Agricultural Rehabilitation Recovery Association." His dependability and responsibility, his dedication, and the publication of a series of papers gained him recognition from higher authority.

During a reexamination of old cases during this period, the Kuomintang authorities discovered that Li Teng-hui had been a member of the Communist Party of Taiwan.

Since Li Teng-hui had actually left the Party, and since he was strongly protected by powerful persons, Li Teng-hui was able to escape by the skin of his teeth.

In 1964, Li Teng-hui obtained a doctorate from Cornell University in the United States. His doctoral dissertation (an analysis of capital in Taiwanese agriculture and industry) earned him the annual American award for excellence for the best doctoral dissertation. This lay a foundation for Li Teng-hui's international standing as a scholar.

After receiving his PhD, Li Teng-hui returned to Taiwan to teach and to serve concurrently as an advisor to the "Agricultural Rehabilitation Association." In 1972 when Chiang Ching-kuo became "Executive Yuan president," on the recommendation of Hsieh Tung-min [6200 2639 7036], Li Teng-hui was invited into the cabinet to become a "minister without portfolio."

Li Teng-hui has held Hsieh Tung-min in rather high esteem for many years. He has told old friends that Hsieh Tung-min's greatest strength is his ability to read people's innermost sentiments from their words and expression. He understood Chiang Ching-kuo's intentions and wants. Aside from his steadiness, dependability and his talents in agricultural economics, possibly Li Teng-hui possessed the same keen powers of discernment and so earned Chiang Ching-kuo's confidence.

Toward the end of Li Teng-hui's tenure as "minister without portfolio," Chiang Ching-kuo authorized him to examine the national defense budget. By this action, Chiang Ching-kuo seemed to have revealed an inkling of his posthumous plans.

#### **P'eng Yin-han [1756 6892 3352] Is an Old Comrade of Li Teng-hui**

In 1978, Li Teng-hui moved from behind the political scenes to the front of the stage when he became the Mayor of Taipei. He continued to maintain contact with old friends and old comrades of 30 years earlier. His old comrades in Taiwan now number approximately 10. (P'eng Yin-han, who has returned to Taiwan, is a comrade of Li Teng-hui from that time.) According to several people in contact with Li Teng-hui, Li Teng-hui does not try at all to avoid old comrades and old friends, and any topic whatsoever can be discussed with him. However, old comrades refrain from discussing sensitive political questions with him.

Li Teng-hui frequently urges them to tend to their businesses and not be concerned with mundane matters. He shows great care and concern in talking with them. He asks them to "come over for a visit," or "stop by when you need something." They all feel that the "good guy" of former years has not completely changed as a result of having gained a high position in the Kuomintang.

#### **Did Chiang Ching-kuo Have Deep and Long Range Plans?**

Formerly, Chiang Ching-kuo had a very deep relationship with socialism. Whether his empowering of Li Teng-hui when he was nearing the end of his life is related to past events is unknown. However, as far as Kuomintang politicians of Taiwanese birth are concerned, never before had there ever been a person with such a past as Li Teng-hui who had genuinely gained Chiang Ching-kuo's appreciation.

#### **Li Teng-hui Dislikes Lin Yang-kang's [2651 3152 3263] Boastfulness**

They say that Li Teng-hui objects to Lin Yang-kang's behavior. He criticizes Lin Yang-kang for liking to boast and for writing bad checks, which put his successor in a very embarrassing position. Li Teng-hui uses the term, "fake statesman" to describe Lin Yang-kang.

However, as Li Teng-hui has risen step by step from "mayor" to "provincial governor," to "vice president" they are not willing to affirm that Li Teng-hui is entirely the person he was in the past. Nevertheless, they believe that Li Teng-hui will continue to keep his good sense and will not completely become a Kuomintang political hatchet man like Lin Yang-kang.

Unlike Hsieh Tung-min, Li Teng-hui is not a "half mountain." [JPRS note - "half mountain" refers to a person who was born in the mainland and moved to Taiwan, or was born in Taiwan and grew up in the mainland.] He was born, educated, and grew up in Taiwan. He is a Taiwanese who has never been to the China mainland. Li Teng-hui acknowledges that he is a Taiwanese, and that he should have no personal enmity toward the Chinese Communists. Nevertheless, his attitude toward China is rather conservative. Not long after he became "president," he met with personages from the Taiwan Progressive Party and Workers Party, and though he dislikes criticizing activities outside the Kuomintang, he openly expressed views regarding the Shih Hsing-chung [2457 1840 1813] case. Shih Hsing-chung has given him a very big headache. Those who know the inside story have said that the phrase, very big headache, truly expresses Li Teng-hui's heartfelt feelings. If he intended to fix him, or if he had hinted that Shih Hsing-chung should be punished severely, he would really have had a headache! So in the end, Shih was relieved of his duties as punishment. Truly he was at his wits end.

#### **Old Friends Believe He Will Never Forget His Old Roots**

Li Teng-hui is full of good feeling for young people who are anxious to reform society. In 1971 when he became chief of the Agricultural Economics Section of the "Agricultural Rehabilitation Association, after Chang Chun-hung [1728 0193 1347], Hsu Hsin-liang [6079 0207], Pao I-hung [0545 1150 3163], and Chang Shao-wen

[1728 4801 2429], had published a work titled "Analysis of Taiwan Social Power" in TA-HSUEH TSA-CHIH [UNIVERSITY MAGAZINE]. University Magazine Press invited Li Teng-hui to take part in discussions. Although Li Teng-hui was somewhat critical of flaws in the analytical report in the course of meetings, in general he spoke favorably about this work.

Li Teng-hui has a high regard for scholarly study as a means of promoting social reform; however, ever since he withdrew from the Party years ago, his attitude toward politics has been to stay at a respectful distance. Reportedly when his only son, the already deceased Li Hsien-wen [2621 2009 2429], joined the Kuomintang while he was in high school, Li Teng-hui also chided him a little. Unexpectedly, he himself later became the highest ranking person in the Kuomintang.

At home, Li Teng-hui speaks in the Taiwanese dialect. He likes to hear Taiwanese and to listen to Japanese songs. He leaves home early in the morning and returns late at night, but if his colleagues ring his door bell first thing in the morning, he is always delighted to see them.

The guards in front of his residence have also been influenced by him; they are always extremely polite to visiting guests or to strangers who show up.

After Li Teng-hui became the Taiwan provincial governor, he joined the Taichung "Taiwan University Alumni Association." He also went to every meeting, and he tried his best to take part in every one of the alumni association's activities.

#### **Some Similarities to Chiang Ching-kuo's Experiences**

In the eyes of his old colleagues, Li Teng-hui remains an idealistic, unambitious scholar. Though he holds a key post that makes it difficult for him to talk frankly and requires him to keep things to himself; nevertheless, they believe he will not forget his roots. The "tough" Li Teng-hui will continue to use his good sense, and their occasional visits to him are not for the purpose of asking him for anything, but rather to be near him, to understand him, and to see whether he has changed. It is hoped that he will not do as some other native born Kuomintang politicians have done.

9432

10

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, economic, military, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available source; it should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated. Those from English-language sources are transcribed, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names which are rendered phonetically or transliterated by FBIS/JPRS are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source.

## SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in 8 volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Africa (Sub-Sahara), Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications generally contain less time-sensitive information and are published periodically. Current JPRS publications are listed in *Government Reports Announcements* issued semi-monthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcovers or microfiche) at no charge through their sponsoring organizations. DOD consumers are required to submit requests through appropriate

command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.) For additional information or assistance, call FBIS, (703) 527-2368, or write to P.O. Box 2604, Washington, D.C. 20013.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. New subscribers should expect a 30-day delay in receipt of the first issue.

Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.