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JPRS-CAR-88-041
29 JULY 1988



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JPRS Report

China

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GENERAL

Dramatic Breakthroughs From U.S.-Soviet Moscow Summit Themed Unlikely

40050293 Shanghai GUOJI ZHANWANG [WORLD
OUTLOOK] in Chinese No 10, 23 May 88 pp 13-14

[Article by Chen Peiyao [7115 0160 1031]: "While Devoid Of Dramatic Breakthroughs, the Moscow Summit Will Continue To Improve U.S.-Soviet Relations"]

[Text] Around the world, all eyes are on the U.S.-Soviet summit scheduled to be held in Moscow from 29 May to 2 June. Of common discussion worldwide are what deals would be struck at the summit and what impact it would have on U.S.-Soviet relations, and even on the international situation. During the past half year, the U.S. and Soviet foreign ministers have held four rounds of talks to prepare for this summit. Their two teams of arms control negotiators in Geneva have also stepped up the preparation of a wide variety of documents. This intense flurry of activity gives an increasingly clear picture of the summit.

Four Summits Must Be Considered Together

There have been four U.S.-Soviet summits and 26 foreign ministerial meetings in less than 3 years. All these frequent consultations revolve around one theme: the signing of a number of disarmament agreements and the stabilization of the tense situation in the "hot spots." Both countries want to extricate themselves from the passive situation created by the tension and confrontation in their relations since the 1970's in order to meet their domestic political and economic needs and the demands of a changing strategy. Specifically, a fierce arms race between them in the first half of the 1980's proved deleterious to the economies of both nations. During Reagan's term in office, U.S. military spending soared from \$2,000 to \$3,000 billion. This and other reasons resulted in a hefty budget deficit, a huge foreign trade deficit, and mounting debt. Compared to the U.S., the Soviet Union labors under even heavier economic pressure as a result of the arms race. If the Soviet Union wants to carry out domestic reform and revitalization, it has no choice but to scale down the magnitude of its military buildup. During his visit to the U.S. last year, Gorbachev admitted openly, "Years of conflict and fierce competition have achieved nothing other than heightened danger." Reagan also said, "The U.S. and Soviet Union are captives to as well as experts of the arms race." Disarmament eases economic pressures and satisfies the needs of both sides. Second, both Reagan and Gorbachev need to improve their domestic political image and position through disarmament and a relaxation of regional conflicts. Third, both sides realize that given modern scientific and technological conditions, they can "neither wage nor win a nuclear war." The actual combat as well as deterrence value of nuclear weapons have diminished sharply. Moreover, it is the strategy of both sides to shift their dependence from

nuclear weapons to high-tech conventional weapons, thus making drastic cuts in nuclear weapons increasingly possible. Fourth, worsening regional conflicts are a destabilizing factor in U.S.-Soviet relations and threaten to drag both countries into a military confrontation they are trying desperately to avoid. Thus it is in their interest to control and stabilize the situation in the "hot spots."

For these reasons, Reagan and Gorbachev decided to ease bilateral relations, focusing on disarmament. The first two summits in 1985 and 1986 were primarily devoted to exploratory talks on disarmament issues. While neither summit produced a substantive accord, the two sides drew closer on such matters as the reduction of intermediate-range guided missiles and strategic weapons. They also sounded each other out on the possibility of reaching some kind of compromise on the development of space weapons. As regards regional conflicts, both sides also expressed a wish to reach an agreement. At the U.S.-Soviet summit in December 1987, the two countries finally concluded an agreement on intermediate-range nuclear forces [INF], which will eliminate two classes of nuclear weapons in the U.S. and Soviet arsenals: intermediate-range guided missiles and short- and medium-range guided missiles. The significance of the INF treaty lies beyond the fact that it is the first real disarmament accord between the U.S. and Soviet Union. It also establishes certain new principles for future disarmament negotiations. The first principle is leveling down, a change from the notion of leveling up found in previous arms control agreements which set a quantitative limit higher than the existing stock of weapons. The second principle is unequal reduction. In contrast to the past when the emphasis was on reduction by both sides of an equal number of weapons, now the more weapons a country has, the more drastically it will have to cut back. Third, a rigorous inspection system, including "challenge" inspections (if one side has doubts, it can immediately send inspectors to the other country) and the creation of permanent monitoring stations for on-site surveillance, a departure from the past when only technical monitoring (such as satellite surveillance) was allowed, thus making compliance by both sides that much more creditable. The INF treaty, therefore, is a breakthrough in U.S.-Soviet disarmament talks and will give a boost to the conclusion of other arms control agreements between the two countries in even more critical areas, such as strategic, conventional, and chemical weapons.

The Moscow summit, which will soon take place, is a direct continuation of the Washington summit late last year. In the wake of the signing of the INF treaty, both sides hope to strike while the iron is hot and expand their achievement to other areas in arms control, particularly the conclusion of an accord cutting strategic weapons by 50 percent. On regional conflicts, they seek to stabilize the situation in more "hot spots," capitalizing on the Afghan agreement reached in April. On human rights and bilateral relations, they hope to reduce conflict and

reach a series of agreements on trade, economic intercourse, personnel exchanges, and cultural cooperation. Both sides hope to see the efforts expended at the first three summits bear fruit at the latest meeting and create a framework for sustained improvement in U.S.-Soviet relations in the future.

Moscow Summit Will Produce No Dramatic Breakthroughs

Subjective wishes are one thing, practical possibilities are something else. Only half a year separates this summit from the previous meeting. Rushed encounters are not likely to produce any major deals, so we expect no earth-shaking news or dramatic breakthroughs from this summit.

At the Washington summit late last year, both sides agreed to cut their strategic weapons by 50 percent, after that each can have no more than 1,600 offensive strategic weapon carrier systems, 6,000 warheads, and 154 heavy guided missiles carrying a maximum of 1,540 warheads. Of the 6,000 warheads they are allowed to keep, the number of intercontinental ballistic missile-launched and submarine-launched warheads must not exceed 4,900. Negotiators from both sides were told to establish a ceiling for long-range nuclear warheads that can be carried by heavy bombers and cruise missiles, and work out the text of an agreement to be signed by the two heads of government at the summit in mid-1988. While the two countries now see eye to eye on overall numbers, deep differences remain over linkage to the development of space weapons, verification procedures, and the determination of ceilings for individual categories of nuclear weapons. Strategic weapons negotiations are much more complicated than negotiations on intermediate-range guided missiles. As far as the U.S. and Soviet Union are concerned, eliminating intermediate-range missiles merely scratches the surface of their nuclear arsenals (about 4 percent,) whereas slashing strategic weapons by 50 percent would be a serious blow. It seems that there is now not enough time for the negotiators to hammer out a treaty for the two leaders to sign at the Moscow summit. Still, they can fine-tune the agreement reached last year in Washington and compromise on a number of issues. According to Ai Si Bu Lu Ke [phoneticization], director of the London Strategic Studies Institute, the U.S. and Soviet Union have completed studies on minimum nuclear deterrence and concluded that by keeping 1,200-1,500 nuclear warheads each and cutting strategic nuclear weapons by 80 percent, they can already achieve deterrence of "assured destruction." The Soviet Union even argues that provided neither side has anti-missile missiles, they could reduce strategic weapons by 95 percent and keep just 600 single-warhead mobile intercontinental missiles each. Based on this evaluation, the possibility exists for further deep cuts in strategic weapons by the U.S. and Soviet Union in the future.

About regional conflicts, both sides may issue a communique restraining themselves just a little from directly intervening in wars and conflicts in the Third World.

The Soviet Union began withdrawing its troops from Afghanistan on 15 May, a process due to be completed in 9 months, thus paving the way for a political solution to the Afghan problem. On Kampuchea, the Iran-Iraq War, Israel's persecution of Palestinians, and other issues, both sides will continue to express their hopes for a peaceful solution, but there is little chance for a substantive accord.

On human rights and bilateral relations, the Soviet Union may moderate its stand in return for stronger trade and economic ties and more cultural cooperation with the U.S.

The latest U.S.-Soviet summit will not resolve the basic conflicts and differences between the two countries. However, it is hoped that it can serve as a link between past and future and continue the trend toward improved relations begun at the several previous summits. Through new agreements and declarations of intent, a new framework may emerge in which the next U.S. administration after Reagan can continue to do business with Gorbachev.

A Winding Road Ahead for U.S.-Soviet Detente

The improvement in U.S.-Soviet relations since the Washington summit last year has been dubbed the new U.S.-Soviet detente. Post-war U.S.-Soviet relations has regularly oscillated between tension and detente. In the 1950's, Khrushchev visited the U.S. and held a summit meeting with Eisenhower, giving rise to the "spirit of Camp David." In the early 1960's, Kennedy met with Khrushchev in Vienna soon after taking office. Disarmament talks were held between the U.S., Britain, and the Soviet Union and U.S.-Soviet tension eased, only to worsen again later because of the Cuban missile crisis. In the first half of the 1970's, Nixon and Brezhnev exchanged visits and reached a series of agreements on arms control and bilateral relations. This was the second detente in U.S.-Soviet relations. In late 1970's, however, the Soviet Union stepped up expansion overseas and sent troops to invade Afghanistan in 1979, so detente was again replaced by tension and confrontation. The latest detente has its new features. The agreements the two countries have signed, from arms reduction and regional conflicts to the development of bilateral trade and cultural relations, cover a broader area than those of the two earlier rounds of detente. These agreements are also more far-reaching, reflecting changing U.S. and Soviet perceptions of nuclear weapons, war and peace, and strategic goals and means, a characteristic that cannot be said for earlier accords. Thus this time around, detente may last longer and show more staying power. Since the U.S. and Soviet Union have opposing strategic interests, however, their fundamental differences will remain irreconcilable and the course of detente will be a winding one, full of twists and turns, including some occasional sharp conflicts.

Difficulty of Reducing Strategic Nuclear Weapons Discussed

40050298 Beijing LIAOWANG [OUTLOOK] in Chinese
No 22, 30 May 88 pp 39-41

[Article by Li Nan [2621 2809]: "START Talks Hit Snags"]

[Text] Soviet leader Gorbachev will meet with Reagan for the fourth time in Moscow from 29 May to 2 June, less than 6 months after they held their third meeting in Washington.

The main topic on the agenda of the latest U.S.-Soviet summit was the proposal, first put forward at their second summit in Reykjavik, to cut their strategic nuclear weapons by half. When the two leaders met in Washington, they agreed to work out a strategic arms reduction treaty [START] soon so that it could be signed when they met again in the first half of 1988.

Strategic nuclear weapons are more important in the American and Soviet nuclear arsenals than intermediate-range or short-range nuclear weapons. That is why all eyes around the world are on the latest U.S.-Soviet summit. People who would like to see a reduction in international tension have high hopes.

We cannot say the two sides did not try. From late February to mid-May, their foreign ministers shuttled back and forth between Moscow, Washington, and Geneva to hold four rounds of talks, but still failed to close important differences between them. Nor did their negotiators in Geneva, working round the clock, manage to iron out the countless snags and come up with a draft treaty.

What are their differences? The two leaders agreed in Washington to reduce their carriers to 1,600 and warheads to 6,000 each. But all sorts of difficulties crop up when it comes to implementing the cuts because the two countries have different types of nuclear weapons in different quantities. An equally complex problem is verification. All this poses far more difficulties than reducing intermediate- and short-range nuclear weapons.

Only military and disarmament experts can describe thoroughly and in detail the various categories of nuclear weapons. Still we can at least summarize them here. Unlike intermediate- and short-range guided missiles, strategic nuclear weapons can be deployed on land, on a submarine or in the air. In other words, they are of three types: land-based, sea-based, and air-based. They can also be divided into ballistic missiles and cruise missiles. In addition, some land-based missiles known as mobile missiles move continuously in orbit. Thus strategic nuclear weapons are intrinsically complex and present many difficulties.

The crux of the problem is that the U.S. and Soviet Union enjoy vastly different advantages in different categories of strategic nuclear weapons. The Soviet Union has the upper hand in land-based guided missiles, while the U.S. is markedly superior when it comes to sea- and air-based weapons. Moreover, weapons vary in accuracy, submerged cruising capability, continuous cruising capability, and other aspects of performance. This only further complicates the distribution of weapons reduction.

An even more critical question is this: although the two leaders firmly pledged not to "seek military superiority" in their joint communique issued in Washington, that is not how they behave when they actually sit down to negotiate. The U.S. wants to limit the Soviet Union's land-based missiles, while the latter seeks to do likewise with U.S. air and sea-based missiles, particularly sea-based cruise missiles. The U.S., however, contends that this kind of guided missile is unverifiable and objects to discussing or limiting them. It has been said in the Western press that sea-based cruise missiles are the biggest hurdle to a START treaty.

Verification has traditionally been a controversial issue in disarmament talks. Even after the intermediate-range nuclear forces [INF] treaty was signed, verification still posed a problem threatening its ratification. The problem was not worked out until the foreign ministers of the two countries met and talked in Geneva. The verification of strategic nuclear weapons will inevitably prove more difficult. Picture a submarine cruising beneath a vast ocean, a heavy bomber flying in the sky day and night, or a land-based guided missile being moved back and forth. How can they be effectively monitored? The difficulties involved in working out a deal are readily imaginable.

The Strategic Defense Initiative [SDI], also known as "Star Wars," will be another hotly debated topic at the latest summit, as in previous meetings. The Soviet Union still insists on linking a START treaty to, and making it contingent upon, the strict compliance with the anti-ballistic missile [ABM] treaty of 1972. The U.S., on the other hand, presses ahead with the deployment of SDI, no matter what. Moscow says that the ABM treaty must be interpreted narrowly, while Washington opts for a broad interpretation. The Soviet Union proposes that both countries adhere to the treaty for 10 years, the U.S., only 7 years. The Soviet Union first wanted to limit the testing of space weapons to the laboratory, but offered a concession later by agreeing to the testing of some installations in space provided the U.S. furnish a detailed list beforehand, a condition the U.S. refuses to accept.

At several past meetings of the foreign ministers, both sides indicated that progress had been made in their negotiations. But I am afraid the truth is that despite progress, crucial differences remain. Thus after holding

their fourth meeting in Geneva, all the two foreign ministers could say was that issues remained which simply could not be ironed out in time for the summit.

In fact, we had an inkling of the trouble to come soon after the Washington summit. President Reagan first began singing a different tune last February when he noted that a treaty could not be readied in time for the summit because strategic nuclear weapons covered a wide area and there was little time. Subsequently the U.S. Joint Chiefs of Staff said in a report that it was not practical to conclude a START treaty in the absence of an effective verification system. Clearly the military's opinion carried considerable weight. The U.S. also harped on the need for a "sound treaty," the message being that there was no rush. The Soviet Union expressed optimism on several occasions that a treaty would be completed as scheduled. Still, it "takes two to tango" and gradually even Moscow dropped any talk about a speedy conclusion of a START treaty.

During the negotiations, both sides also displayed a "fear of being taken in and cheated." There were repeated outcries among some members of the U.S. Congress calling for vigilance against "loopholes." Their psychology was exactly the same as that of ordinary businessmen as they go about buying and selling.

Offensive strategic nuclear weapons are the key component of the two nations' arsenals. To what extent such weapons should be cut back is a pivotal issue with an impact on their military strength and nuclear balance. That START talks proved to be tortuous and were stalled is not surprising and is actually to be expected. It is indeed tough to slash strategic nuclear weapons by half.

The absence of a START treaty certainly makes the Moscow summit lose much of its luster but it remains a critical meeting, a positive step in the direction of improving U.S.-Soviet relations and in relieving world tension. If the two leaders can narrow their differences in their 5 days of talks, that will clearly give a boost to the conclusion of a START treaty and this is welcomed by nations around the world.

The two leaders will also discuss a ban on chemical weapons and nuclear testing, the peaceful use of nuclear explosions, and the reduction of conventional weapons. Most predict that on these issues the summit will be a success to varying degrees.

As in previous summits, weapons talks are the first item on the agenda. The second item consists of regional conflicts: Afghanistan, the Middle East, Central America, Angola, the Iran-Iraq War, and Cambodia. While details of the talks will not normally be disclosed, they are mirrored in the way events are unfolding in the regions. Take Afghanistan, for instance. The Soviet Union has begun withdrawing from that country and a political solution has been hammered out. But this only

brings into sharper relief the question of continued aid for the respective U.S. and Soviet allies. Their proposals and counter-proposals are miles apart and will no doubt be argued at length at the coming summit. The two countries may compromise on this and similar problems. But it is just as likely that the impasse will continue.

The third item also covers an array of issues and has to do with various aspects—political, economic, cultural, and scientific and technical—of bilateral relations. So-called human rights and humanitarianism are what each country say they are. However, the Soviet Union has indeed taken a series of steps lately. As for economic and cultural cooperation, the need is mutual. It seems that the opportunity for expansion in these areas is quite good.

While there are three separate items on the agenda, they are closely related. For instance, a failure to resolve regional conflicts will affect arms negotiations. If progress is made on the first two items, the third item can naturally be worked out readily.

The world situation is like a chess board. The U.S.-Soviet summit is an unfinished game of chess. Before moving a piece, one must look back and forth and think carefully. One must work with the situation as it is and continue from there.

Moscow is teeming with dignitaries. The curtain on the summit has been drawn. Let us see how the two sides play their part. What sort of wonderful performance would they put on? With what satisfactory results?

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NORTHEAST ASIA

Okuno Incident Seen Symbolic of Rising Japanese Militarism

40050297 Beijing LIAOWANG [OUTLOOK] in Chinese No 21, 23 May 88 p 44

[Article by Mei Zhenmin [2734 2182 3046]: "Okuno Incident Symbolic Of Rising Militarism in Japan"]

[Text] Public outrage over Seisuke Okuno's repeated outbursts of nonsense might subside temporarily after the prime minister's acceptance of his offer to resign as director of Japan's National Land Agency. However, this incident reminds us again that there is indeed a dangerous force and ideological trend in Japan and that we need to pay attention to where Japan, already an economic power, is going in the future.

It is no accident that Seisuke Okuno, a cabinet member, had the nerve to publicly justify Japan's past war of aggression. Rather, the event took place in the right climate and atmosphere. In recent years, right-wing forces have been running rampant, along with a surging tide of militaristic thinking. They publish articles and

books and make speeches at meetings loudly declaring that the trials of Japan's war criminals by the Far East International Military Tribunal were "illegal" and constituted a distortion of the history of the Japanese nation. Claiming that "there were no war criminals in Japan" and that "the Greater East Asia War was not a war of aggression," they declared that the significance of the "Greater East Asia War in world history must be reexamined," that "an enlightenment must be launched to review the constitution and Japan's postwar system," and that "a new true interpretation of national history free from foreign control must be established." In the midst of the new feverish studying campaign, "Yamato nationalism," [Japanese Nationalism] preached by a number of people known as "national spiritualists," clearly includes elements of mysticism, feelings of racial superiority, and expansionism. Reports say that like the philosopher Nishida Kitaro, who was admired by Hideki Tojo, they claim that "a principle applicable to the entire world will emerge from Japan's historical spirit and that the Tenno way must be applied to all nations." Anti-Chinese incidents have occurred time and time again in Japan. Thugs make trouble outside Chinese consulates-general. Buildings commemorating Sino-Japanese friendship have been damaged. "Two China" incidents are manufactured openly. According to a report in ASAHI SHIMBUN on 3 May, some writers who expose Japanese war crimes are constantly threatened, insulted, beaten up, and condemned as "traitors." Because of threats to eliminate them, the writers have no choice but to take extra precautionary measures, changing work sites and wearing bullet-proof vests when they go out. On 27 April, after Okuno "spoke up," the "association of comrades on basic national issues," made up of young hawkish Diet members from the Liberal Democratic Party, held an emergency meeting and formally decided to demand that opposition parties who had criticized Okuno undertake "profound self-examination" and to "punish" Hirose Hideyoshi, a Socialist Diet member, for questioning Okuno. According to a report in TOKYO SHIMBUN on 14 May, some cabinet members actually went so far as to support Okuno at a cabinet meeting on 13.

These facts show that, as the foreign press says, "Japan is trying to distort its history of aggression. The forces of preserving the imperial view of history remain deep-rooted." It was against this backdrop and in this atmosphere that Okuno spoke out in defense of aggression and war criminals. His words reflected the wishes of the right-wing forces.

There are deep-seated economic and political reasons for the upsurge in militaristic right-wing forces. Japan today has become the largest economic power in the Western world after the United States. As far as foreign trade surplus, international balance of payments, net foreign assets, and foreign exchange are concerned, Japan has overtaken the United States to be the top creditor nation in the world today. Two years ago, the Japanese government successively issued four documents and research reports including the "Maegawa Report" and "Reflections on Japan in the world" and put forward its strategic objectives for Japan as

it approaches the 21st century. In its opinion, American superiority has been eroded. What is needed is a new international order to be maintained jointly by developed nations. Japan should "undertake major responsibilities" in the new "common system" by assuming more international public assets. In the words of Japan's former prime minister, "Japan must build itself up as an international nation that conforms to world trends." To effect the transition from an economic power to "international nation," the Japanese government has taken a number of steps in the economic, military, diplomatic, and ideological spheres in the past 2 years. It was under these circumstances that militaristic right-wing forces really got aggressive. If the clamor of some militarists in the early postwar period was the lamentation of the defeated, then their present clamor clearly signifies something else. They are out to change the direction of peaceful development by capitalizing on the transition from being an economic power to an "international nation," beef up military strength, using the country's formidable economic prowess resulting from 40 years of hard work by the Japanese people, erase the "disgrace of defeat," and realize the old dream of "Greater East Asia" expansion. It is self-evident what Okuno means when he says that "forty years have passed since the war, but Japan is still being pushed around by the ghost of the occupation forces" and that "Japan is being united around Tenno through Shintoism." By openly denying aggression and reversing the verdict on war criminals, he clearly wants to "remove old disgrace" and restore militarism.

Faced with this serious situation, Japanese of all walks of life and opposition parties are stepping up their struggle to preserve peace and oppose the revival of militarism. They hold peace meetings, expose the schemes to revive militarism, criticize the government for increasing military spending and appeasing right-wing forces, and express the genuine wishes of the people. Opposition parties and just public opinion also have reacted sharply to Okuno's "speech" and demanded that he be held responsible for reversing the verdict on Japan's war of aggression.

These events show that a fierce struggle is currently under way in Japan over the direction the country should follow after it became an economic power. The Japanese people are committed to peaceful development, while the right-wing forces are doing their best to influence government policies and turn Japan from an economic power into a military power by pursuing militarism and expansionism. The final outcome of this struggle, which may last for years, will have a far-reaching effect on Japan's destiny. Nevertheless, at a time when peace, democracy, and development have become inexorable trends in the world, to dream about reviving militarism and dominating Asia and the world through military and economic might is to indulge in wishful thinking.

NEAR EAST/SOUTH ASIA

Renewed Tension in Persian Gulf Viewed

40050294 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 9, 5 May 88 pp 5-8

[Article by Chen Hefeng [7115 0735 0023]: "Superpower Involvement Brings New Tension To The Persian Gulf"]

[Text] Tension in the Persian Gulf, which seemed to have subsided somewhat last winter and this spring, flared up again recently as the war heated up. Since early February, Iran and Iraq have stepped up attacks on shipping in the Persian Gulf and carried out air raids on each other's cities on an unprecedented scale, even as ground fighting continues unabated. In mid-April, a fierce sea battle erupted between the U.S. and Iran, exacerbating tension in the region. Why did the gulf situation worsen again? Where is it really headed? This is an issue of great concern to the public.

Changes in the Defensive and Offensive Positions of Iran and Iraq

After invading Iraq in 1982, Iran has always been in the offensive on the ground, while Iraq's position has basically been defensive.

In 1987, both Iran and Iraq suffered major setbacks in the war, but Iran had worse problems. First of all, while it boasts more manpower, Iran lacks advanced weaponry and adequate equipment and has suffered heavy casualties on the battlefield, probably more than double that of Iraq. The battle of Basra in 1987 alone cost Iran 100,000 casualties. In just the last 8 months, Iran tried to mobilize 250,000 to 300,000 people, but only 100,000 men responded to the call. Second, Iran's economic difficulties are mounting by the day. Most of its large factories have been bombed by Iraq and 400,000 people have lost their jobs. Because of falling oil exports, financial hardships, and inflation, enormous war bills have proved to be an intolerable burden. Diplomatically, it has also been a tough year for Iran. As its relations with Kuwait and Saudi Arabia reached its lowest point, Iran found itself conflicting the majority of Arab nations. Meanwhile, its relations with the U.S., Britain, and France were under severe strain. Iran also came under tremendous pressure as the United Nations debated the implementation of Resolution 598. Faced with all these difficulties, Iran began modifying its strategy as early as the latter half of 1986. Instead of continuing to mount large-scale attacks on Iraq, it looked for opportune moments to launch limited attacks in favorable locations. At the same time, it stepped up its diplomatic offensive, accepting Resolution 598 with conditions in order to check Iraq and improve its position.

Iraq's original plan was to use the United Arab front tentatively formed at the Amman conference and pressures from the West to force Iran to agree to a cease-fire and seek peace. With Syria maintaining ties and cooperating with Iran in several ways, however, the Arab gulf states failed in

their attempt to establish a dialogue with Teheran. The cease-fire plan put forth by the Gulf Cooperation Committee, including the payment of \$60 billion in reparations to Iran, also failed to strike a responsive chord in that country. The U.N. Secretary General came up with a detailed plan to implement Resolution 598 but Iran stuck to its position and no agreement was reached. To break this impasse, Iraq decided to step up attacks on Iran to incite it to seek force. Capitalizing on its air superiority, Iraq launched heavy air and missile attacks on Iran's sea targets, capital, and inland cities in February and March. Iran counterattacked, bombing Iraqi cities and oil tankers. The result was a round of raids on ships and cities, the latter being the hardest hit. From 29 February to 26 March, Iraq fired 120 guided missiles at Teheran, while Iran launched 50 missiles at Baghdad. In just one day, 27 February, 181 Iraqi planes were sent to bomb Iran.

In the ground war, Iraq also had the upper hand. In mid-March, Iran launched a joint offensive with the Kurds, who have been rebelling against Baghdad, on the northern front, but suffered enormous losses. In contrast, Iraq scored a victory in its large-scale counterattack on the southern front. From 17 to 18 April, Iraqi troops recaptured the Fao Peninsula after intense fighting. In its biggest victory in 6 years, Iraq claimed to have routed 3 Iranian divisions and recaptured its outlet to the sea. The war of the cities and the battle over Fao marked a change in the position of Iraq from defensive to offensive, and vice versa for Iran.

U.S.-Iranian Conflict Closely Related to the Middle East Situation

With Iran and Iraq attacking each other's ships, the waters of the Persian Gulf instantly became more turbulent. In the morning on 18 April, the U.S. Navy and Marines, acting on the order of President Reagan, attacked two Iranian oil platforms in the southern part of the gulf to retaliate for an incident on 14 April in which an American warship was crippled by a mine in the gulf. Soon after, Iran struck back and a fierce battle broke out. The U.S. sent out seven naval vessels, including the aircraft carrier "Enterprise." Two Iranian boats were sunk, four were crippled, and over 30 Iranians were killed or wounded. One U.S. military helicopter was shot down. The Iranian navy also attacked the American-operated Mu Ba La Ke oil-field outside Sha Jia, as well as an American tugboat and an American-leased British oil tanker. The latest clash was America's fourth with Iran since it began escorting shipping in the gulf and also the largest sea battle between the two nations.

While the immediate cause of the clash was the crippling of an American ship by an Iranian mine, an analysis by the Japanese newspaper YOMIURI SHIMBUN calls it a "calculated" move on the U.S. part, an integral part of the overall development in the Middle East. The gulf is the primary oil supplier to the West and Iran which is situated at the northern part of the gulf, lies in the route of the Soviet Union's southward push. The U.S. says its strategic objectives in the gulf are to check Soviet penetration, ensure oil supply to the West, and protect the security of moderate

Arab nations. Its shipping escort and moves to check Iran are an important means of accomplishing these objectives. Since U.S.-Iranian clashes began last October, Iran has attacked oil tankers in the gulf continuously as part of its war with Iraq. On the one hand, it made threatening gestures to Kuwait and Saudi Arabia and stuck to its hostile attitude. On the other hand, it increased contacts with the Soviet Union to develop bilateral relations. In mid-February, the Iranian prime minister and foreign minister held talks on Afghanistan and bilateral relations with the visiting Soviet deputy foreign minister, Petrovskiy. All this ran counter to America's strategic objectives in the gulf. To divert attention and pacify Arab nations alienated by "Irangate" and America's continued partiality to Israel in face of the struggle of the Palestinian people, the U.S. needed to put pressure on Iran. According to the NEW YORK TIMES, the U.S. also suspected that there was an Iranian connection to the recent hijacking of a Kuwaiti passenger plane, another reason why the U.S. decided to attack Iran.

After the clash between the U.S. and Iran, the U.S. Defense Department announced that five additional military vessels would be sent to the gulf on 28 April to join the Middle East special task force. The U.S. also decided to expand its shipping escort, ordering the military to protect all neutral ships that came under Iranian attack. Iran's reaction was sharp. President Khamenei vowed to "strike back at America forcefully and decisively." Reagan too declared that "Iran must pay a price if it threatens us." Apparently another U.S.-Iranian clash is a matter of time.

Turmoil in the Gulf Will Remain for a Long Time to Come, Though It May Wax and Wane

Rife with bitter and complex struggles, the gulf region is a hotbed of conflicts, both internal and external. Not only is it a new cockpit in the Middle East, but it also has become the worst trouble spot in the world. In general, the region will remain turbulent for a long time to come. All kinds of crises will crop up, with political struggles punctuated by military clashes. Certainly, there are also constraints on the conflict in the gulf; tension in the region goes through stages and varies from locality to locality, now easing, now heating up.

The way things now stand, there is no end in sight to the Iran-Iraq war. While Iraq has seized the initiative in the war to a certain extent, Iran maintains enough military forces to keep the war going and there has been no basic shift in their strength relative to each other. Moreover, Iran after all is a bigger country with the largest population in the gulf. Race and religion are powerful emotional rallying points for its people. Iran, therefore, is not afraid of isolation and is willing to take on the world. If the whole country commits itself to a holy war, it will be very difficult to bring the war to an end. On 13 April, after consulting with Iran and Iraq, the U.N. Secretary General put forth a new five-point peace plan. Although the plan links a cease-fire to an investigation into the responsibility for the war, it still falls short of Iran's demands. Should this plan be rejected, it is hard to see how

the U.N. arms embargo resolution can be enforced. And if the conflict cannot be resolved politically, the two sides will continue to battle each other. Barring a major change in the short run, they will keep fighting and talking, perhaps even creating a no war, no peace situation.

Around the time of the U.S.-Iranian clash, Iran's differences with other Arab nations deepened further, yet another factor contributing to turmoil in Iran. Reportedly Iran decided once again to send 150,000 Iranians on a pilgrimage to Mecca and insisted that they stage political demonstrations, prompting Saudi Arabia to sever ties with Teheran. If the two sides fail to work out a compromise by June and July, new unrest may ensue. After Iraq recaptured Fao, Iran accused Iraq of using Kuwait's Bubiyan Island as a base from which to attack Iran and fired a missile at Kuwait on 20 April, earning the condemnation of Egypt and Jordan. The Foreign Ministry of the United Arab Emirates also protested strongly to Iran about Iran's attack on oil-field. Iran's confrontation with other Arab nations makes the prospects for peace in the gulf even more uncertain.

The U.S. characterized its latest military clash with Iran as "a cautious response" with a limited objective, but it has only served to complicate the gulf issue. It deepened Iranian hostility toward the U.S. and made the U.N. Secretary General's peace mission that much more difficult, without altering Iran's basic objectives or the strategic balance between Iran and Iraq. The main target of the U.S. in the Persian Gulf is the Soviet Union, but Western commentators suggest that American actions are having just the opposite effect: helping the Soviet Union. In contrast to the U.S., the Soviet Union seeks to avoid being drawn into the conflict in the gulf militarily. Instead, capitalizing on the differences between the U.S. and Iran and other nations, it mounts a flurry of diplomatic offensives in hopes of reaping tangible advantage. Even as it sends large shipments of arms to Iraq, it loses no opportunity to mend fences with Iran. It attacks the U.S. military presence in the gulf, on the one hand, and proposes the replacement of U.S. forces by U.N. troops, on the other, thereby gaining the goodwill of some nations. Of course, the Soviet Union has its own selfish interests. Iran has always been leery of Moscow and there have been ups and downs in Soviet-Iranian relations. Arab nations also have complained about the Soviet Union's double-dealing. U.S.-Soviet rivalry in the gulf can only intensify, a main source of instability in the region.

Turmoil in the gulf has been a colossal disaster for the peoples of Iran and Iraq. It has endangered the security of all Middle Eastern nations and threatened world peace. The Chinese people and all peace-loving peoples and nations of the world are all opposed to superpower military involvement and intervention in the gulf, support the protection of gulf security and freedom of shipping, and urgently hope that out of consideration for peace and construction, Iran and Iraq would negotiate an end to the war as soon as possible.

NATIONAL AFFAIRS, POLICY

Summary of Contract Responsibility System in 1987

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[CHINA ECONOMIC SYSTEM REFORM]
No 3, 23 Mar 88 p 35

[Article by Yin Guanghua [1438 0342 5478] and He Zhongze [0149 1813 3419]: "Summary of the Conditions For Development of the Enterprise Contract System in 1987"]

[Text]

I

Enterprises achieved major breakthroughs in 1987 by implementing the contract responsibility system. At the beginning of the year the State Council decided to implement the contract management responsibility system throughout large and medium-sized enterprises, in order to intensify enterprise reform and tap the latent power of enterprises. This important policy decision proceeded from the actual conditions of the initial stage of socialism, found an effective method for separating the ownership rights of enterprises from management rights, found the precise breakthrough point for intensifying enterprise reform, and was universally welcomed by enterprises.

From the standpoint of China as a whole, the enterprise contract system has developed rapidly, its forms are diverse, and its pace is steady. The initial results are already visible, and in some respects there has been spectacular progress. According to the statistics of 28 provinces, autonomous regions, and municipalities directly under the central government, 82 percent of large- and medium-sized state-operated industries and enterprises have implemented various forms of the contract management responsibility system. In Jilin Province and Beijing, where progress has been relatively rapid, all large and medium-sized enterprises have implemented the contract responsibility system, while in regions where progress has been relatively slow, about 50 percent of large and medium-sized enterprises have implemented the contract responsibility system.

II

Judging from the enterprises which already have contracts, favorable results have been obtained primarily with regard to three aspects:

1. The enterprises' economic returns have increased continuously, and revenue has grown steadily. In implementing the contract management responsibility system last year, enterprises adhered to the principle of "contract for a base figure, guarantee turning over a certain amount to the higher authorities, keep more when there are profits, and make up the difference oneself when

there are losses." Enterprises were urged not to make an issue out of demanding tax reductions and profit concessions, and instead aimed at building a new enterprise management mechanism, making an effort to tap latent internal power from top to bottom. The economic returns of the enterprises increased continuously after contracting. The total enterprise industry output value in the 1987 national budget showed a 11.3 percent increase over the previous year, while sales revenue increased 17.1 percent, realized profits tax increased 9.9 percent, and taxes on profits turned over to the higher authorities increased 6.7 percent, realizing a quick and efficacious synchronized increase. Moreover, realized profits were higher in the second half than in the first half. Enterprise retained profits reached \$22 billion, a \$2.2 billion increase over 1986, while enterprise repaid loans reached \$12.8 billion, a \$3.2 billion increase over 1986.

It is especially worthy of mention that enterprises which implemented "two guarantees and one link" and enterprises with the contract management responsibility system, at the same time they were paying attention to increasing their economic returns, strengthened their ability for self-accumulation, self-transformation, and self-development. According to Shenyang City statistics on 70 large and medium-sized enterprises which implemented the contract management responsibility system, a comparison of the management targets for 1990 and the 1986 actual targets showed a 6.6 percent average annual increase in realized profits, a 6.4 percent increase in tax on profits turned over to the higher authorities, and a 9.1 percent increase in enterprise retained profits. The strengthening of the enterprises' reserve strength is premised on the steady increase of revenues, and has also added a new financial source for a further revenue increase. The guaranteeing of revenue has been organically combined with the strengthening of enterprise reserve strength.

2. The contract system has promoted reform of the enterprise management mechanism. The system has strengthened the impetus for reforming this mechanism, provided conditions favorable to reform, and found solutions to many hard-to-solve problems.

In implementing a factory director responsibility system, the difficult point with regard to reform is to establish the factory director's central position and to smooth out relations between party, government, and industry. In making contracts, the manager's rewards and punishments, hiring and dismissal, and the economic responsibilities borne by him are linked together, and management risks increase, so that the factory director's central position is logically established. The various work of the party, government, and industry center around bringing implementation of the contract to success, providing a basis for smooth relations.

Many enterprises, at the same time they advertise vacancies for managerial positions, have extended the competition mechanism to the inside and implemented a cadre

appointment system and worker coordination system, enabling enterprises to establish a self-regulatory function in their personnel selection systems for regulating the quality of applicants. According to a survey in Shenyang City of 143 large- and medium-sized enterprises which have implemented contract management responsibility systems, 129 enterprises had reformed their personnel systems, inviting 758 cadres above the middle level and selecting 3,566 persons, accounting respectively for 14.9 percent and 70.2 percent of the total number of cadres. At the same time, they implemented a reduction of 759 persons, among them 449 persons transferred to strengthen the first line production.

In order to implement the contract management responsibility system within enterprises, Jilin Province extended the within-factory bank system in 700 enterprises throughout the province, introducing the bank's supervision, control, credit, and account-settling mechanism into the economic activity within the factory. The previous relationship based on supplying and requisitioning has been changed to one based on buying and selling, exchange of equal amounts of labor has been implemented, the calculation of profits and losses at each level, from factory to workshop to teams and groups, has been promoted, and impetus has been given to having everyone manage affairs and conduct financial transactions.

Factory director Zhang Xingrang of Shijiazhuang's 1st Plastics Factory has created a "full load" work method. Starting from the realities of his own factory, he has aimed at an advanced domestic and world level, and is striving toward advanced world targets through tapping internal potential, using manpower to the utmost, as well as materials, capital equipment, and time. Currently this experience is already spreading gradually from Shijiazhuang to the entire country.

Many enterprises have explored a multitude of areas in reforming their internal distribution systems. They have not only spread piece wage rates and fixed wage rates over a large area; with respect to linking wage rates and economic returns, they have explored many ways of linking production volume, sales revenue, realized profits, net output value, and the like. The Beijing Leather Goods Factory, after linking the total amount of wages to the tax on profits turned over to the higher authorities, implemented a structural wage rate system, treating different kinds of labor as a single system consisting of six elements—job wage, skill wage, seniority wage, regional wage, allowance, and bonus—and giving fairly adequate play to the leverage of wages.

Reforms of the enterprise mechanism causes very different benefits for an enterprise which has implemented the contract management responsibility system than for an enterprise in the same industry which has not implemented such a system. Moreover, the benefits received by the same enterprises before and after contracting also differ greatly. Citing as an example 110 large- and

medium-sized metallurgical enterprises, for the period January-September 1987, 73 large- and medium-sized enterprises which already had contracts achieved a 12 percent increase in taxes on realized profits and a 14.4 percent increase in taxes on profits turned over to higher authorities, while the 37 enterprises which had not implemented contracts had increases of only 4.7 and 5.7 percent respectively.

3. The system of contract responsibility has begun to change the function of government. The overall implementation of the system of contract responsibility has formed a bottom-to-top force, giving impetus to the further separation of the duties of government and enterprise.

Contract appraisal has weakened the direct intervention of government departments in enterprise management activities. The perfected contract responsibility system's appraisal of an enterprise's potential, its determination of the basic variable, and its selection of managers all must follow certain legal procedures, and aren't matters which some leader can decide as he pleases.

The implementation of the system of contract responsibility has strengthened the government departments' coordination service function. At the same time that the contract stipulates the contractee's rights and obligations, it also stipulates the responsibilities of the contractor, strengthening the various government departments' policy guidance and coordination service function. For example, the Siping City Tax Bureau decided on 428 items for promoting production and increasing revenue, and launched a "support, aid, and promotion" movement for contracting enterprises. The Industrial and Commercial Bank of China has adopted a flexible repayment method for loans to different enterprises, to encourage the enterprises' technical renovation.

Implementation of the system of contract responsibility has motivated the government to strengthen its supervisory function. Jilin Province's Qiandun County has shown notable results in its implementation of an employment and mortgage contract responsibility system. It has done three things as a means of strengthening supervision and control. The first is to strengthen the auditing system, combining audits by specialist departments with the enterprises' internal audits, and establishing a network. The second is to strengthen the auditing function, making clear that the audit department must participate in the whole process of hiring managers, putting property into order, contract enforcement, and contract fulfillment. The third is to make clear auditing mistakes, and investigate and fix the responsibility of auditing personnel, thus forcefully promoting the rationalization of enterprise activities.

III

The 1987 system of contract responsibility is an intensification and development of the enterprise reform which has been going on for nine years, and has five notable characteristics:

1. By using legal methods to distinguish the responsibilities and rights of owners from those of managers, it has found an effective means of separating ownership rights from management rights. Both contracting parties are equal under the law, and through contracting, the former relationship of subordination and dependence between owner and manager changes to an equal economic relationship of mutually borne obligation. The enterprises' responsibilities and rights are distinct and their interests are clearly delineated in the contract, and their lawful rights are distinct and their interests are easily protected by law. The demands made of the enterprises in implementing a contract are formed by the responsible departments, such as the public finance, tax, and banking departments, after devoting time to negotiations about them, eliminating the long-standing vexation for enterprises of taking orders from a large number of "mothers-in-law". This creates conditions favorable for purely autonomous management by enterprises.

2. The system of contract responsibility has introduced a competition mechanism, using base figure bidding and inviting applicants for managerial positions, and has created market conditions favorable for rational determination of the basic variable and for forming a contingent of entrepreneurs.

Competitive determination of the contracting base has changed "one-on-one" negotiations, and bargaining has allowed the enterprises' potential and the value of property to achieve parity with the fair market value, which is conducive to the more rapid increase of economic returns. For example, the Beijing Calculator System has eight enterprises which have conducted base figure bidding, and their contracted targets are 20 percent higher than the original targets.

Competitive advertising for managerial applicants has broadened the field of vision with regard to selection of talented personnel, promoted the rational circulation of talented personnel, and has done away with regional and departmental ownership of talented personnel. The yielding of mediocrity to make way for able people, and the emergence of a large number of outstanding talented personnel has smashed the old framework of the cadre lifetime employment system under which personnel could only be promoted, not demoted. The exploration of fair, scientific methods of evaluating managers has stressed dynamic assessment which puts improvement of enterprise performance first, and has created conditions favorable for breaking away from the old pattern of sole management by party and government cadres. The participation of staff and worker representatives has been absorbed into appraisal, and the democratic power of staff and workers in the selection of managers has been expanded. In short, this is an assault on, and challenge to, the traditional personnel system. It has opened the way to the formation of a contingent of high-quality entrepreneurs, and its far-reaching significance exceeds even that of the contract management responsibility system itself.

3. The system of contract responsibility has introduced a risk mechanism, implemented property mortgage contracting, and further explored ways of enabling enterprises to assume actual sole responsibility for profits and losses. Whether large-scale enterprises are able to assume this responsibility is a difficult problem for enterprise reform. Fushun Steel Works, a large-scale enterprise, drew upon the experience of small enterprise leasing system in contracting, and implemented a property mortgage contract with a steel pipe branch factory with a relatively high degree of potential. The personnel of the branch factory, from the factory director down to each individual worker, each contributes from \$500 to \$2000 in property mortgage payments, according to their respective responsibilities, and the branch factory pays a fixed amount to the head factory. Surplus revenue is retained by the branch factory, while shortfalls are compensated first using the property mortgage fund. After this method had been used for one year, extremely good results had been achieved: output volume had increased 70 percent, and realized profits had exceeded the contracted target by 2.5 times. This form of contracting increases risk, putting actual responsibility for profits and losses on each staff member and worker, and even though the mortgage fund is very small compared with the enterprise's assets, it creates an unprecedented psychological pressure, and converts this pressure into a motive force, forcefully ensuring continued production stability. It represents a new attempt by big enterprises to move toward assuming responsibility for profits and losses themselves.

4. At the same time that the system of contract responsibility has given attention to strengthening the mechanism for encouraging enterprise, it has also strengthened restraint on enterprise's short-term activities. Mutual guarantees were implemented with regard to large and medium-sized enterprises whose development had been assigned priority. This new form was introduced in 1987. This kind of contracting makes clear the demand for technical renovation projects and increase in value of assets, and has expanded enterprise's authority and responsibility for the use, management, and value appreciation of assets. It has found an outlet for enterprise's source of capital, and linked the interests of staff and workers to long-term development. It has increased enterprise's motive force for self-development, and can also control, to a certain degree, the blind expansion of the scale of investment. It has linked enterprise's total wage amount to economic returns, on the one hand encouraging enterprise to increase individual income by increasing enterprise revenue, while on the other hand making it possible to control the expansion of the enterprise consumption fund through linking it proportionally to economic returns.

5. The emergence of contracting enterprises organically combines the system of contract responsibility with adjustment of the enterprise's organizational structure, product mix, and industrial structure.

A difficult unsolved problem in past enterprise contracting was that it only looked into single benefits, causing an irrational enterprise organizational structure, rigidification of the product mix, and increased lopsidedness due to disproportional growth. Large enterprises contracting with small enterprises and advanced enterprises contracting with losing enterprises emerged in contracting in 1987. Some enterprises even implemented trans-regional or transindustrial contracting. For example, Jilin Chemical Corporation contracted with 13 medium- and small-sized chemical plants subordinate to Jilin City, Shijiazhuang Paper Factory contracted with 28 paper mills in Hebei, Shandong, Guizhou, and elsewhere. Chengdu also has eight enterprises which have implemented enterprise legal entity contracting. All of these have achieved notable results. Legal entity contracting has a high degree of credit, and a strong capacity for bearing risks, enabling enterprises to regain the initiative more rapidly. The competitive principle of success for the superior and elimination of the inferior is no longer manifested as bankruptcy for losing enterprises and unemployment for workers. Instead, it is manifested as the elimination of the backward management methods through contracting, reducing the nation's burden, accelerating the adjustment of enterprise structure and product mix, and bringing about an improved combination of the essential elements of production. This kind of enterprise competition posture can keep within limits the buying among enterprises over short-term interests, and guide enterprises in disputes over long-term development, offering a way of rationalizing the Chinese-style enterprise organization.

In short, the system of contract responsibility is still continually deepening and developing. This is perfection in the contract responsibility system itself, but there is also a need for a complete set of relevant reform measures to achieve this perfection. There is still imbalance in the work. We must continue to review new experience in practice and resolve new problems.

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JINGJI YANJIU Article on Socialist Macroeconomics

*HK2107113088 Beijing JINGJI YANJIU in Chinese
No 5, 20 May 88 pp 22-27*

[Article by Luo Jirong (5012 1323 2837) of the Department of Planning Statistics, University of Xiamen, written in January 1988: "Establishing a Socialist Macroeconomics Which Accords with the Needs of Reform and Development"]

[Text] The objective demands of social practice push forward the establishment and development of various disciplines. In order to accord with the practical needs of economic structural reform and economic development, the strengthening of exploration into the basic theory and research methods of socialist macroeconomics, and carrying out deep discussion about the establishing of

socialist macroeconomics, have become pressing tasks. This article will put forward some ideas on several questions regarding the establishment of socialist macroeconomics.

A. Establishing a Macroeconomics Which Serves Reform and Development

Since the 3d Plenary Session of the 11th CPC Central Committee, great developments have been achieved in our country's macroeconomic research. One of these developments has been that quite a few monographs and teaching material texts (and an even greater number of articles) which take the overall national economy as the target of their research and which are basically, or nearly, macroeconomic works, have been written and published. These can be divided into the following major categories:

1. Those which take the overall process of socialist social reproduction as their center, and on the basis on Marx' theory of social reproduction and by combining this with the reality of the times to different degrees, analyze and study the questions of the reproduction and circulation of China's total social product and national income. They quite systematically expound on socialist macroeconomic theory and enrich and supplement Marx' basic theory of reproduction. Some of these works have a quite high academic standard and lay down a base for macroeconomic theoretical research in our country. These works include: "On Socialist Production, Circulation and Reproduction," "The Question of Socialist Reproduction," "The Question of Socialist Reproduction and National Income," "Marx' Theory of Social Reproduction" and "Various Theoretical Questions in Respect of Socialist National Income."

2. Those monographs which directly use the name socialist macroeconomics and try to establish socialist macroeconomics. These include already-published works such as "Socialist Macroeconomics," "National Economics," and "Socialist Macroeconomic Analysis." These works have carried out useful exploration in terms of establishing socialist macroeconomics and they are valuable attempts at innovation.

3. Those works which take the whole national economy as their target of study, but which tend to place stress on a particular speciality, and while the intent of their writing is not to establish macroeconomics, their essential discussion is on the basic theories and methods of socialist macroeconomics. In our discussion of the establishment of socialist macroeconomics, we must think about the content and systems of the disciplines detailed in relevant works of this category. The monographs and teaching materials in this category include: "Socialist Planning Economics," "The Principles of National Economic Planning," "An Introduction to Economic Management," "Macroeconomic Planning," "The Question

of China's Planning Management," "On China's Macroeconomic Theory," "An Introduction to Socialist Economic Regulation," and so on. These works, in expounding on the object of the process of socialist planning management—regulation and control of the process of social reproduction—belong to the main part of macroeconomics.

4. Works which have analysis of and research into macroeconomic objects as their main part and which put stress on one aspect. These include "The Mechanism of National Economic Movement," "Economic Structural Readjustment Measures" and "A Study of the Question of China's Economic Structure." The nature of the monographs in this category is generally the same as those in the third category.

5. Those works which expound on macroeconomic theory in the light of our country's economic structural reforms. These include "Exploration Into the Question of Our Country's Economic Structural Reform," "Various Theoretical Questions in the Structural Reform of National Economic Management" and so on.

There is a further category which includes monographs which in recent years have been used in some universities and institutes of finance and economics for lecturing on modern Western economic and monographs which introduce modern Western economics. These include "Lectures on Economics Abroad" (Volume I).

The results gleaned from the above-mentioned research into the theory of macroeconomics spark some questions worthy of deep thought.

If we are to establish socialist macroeconomics, should we reform the existing systems and contents of the various categories of macroeconomic works which have already been published in our country, or should we establish anew the systems and contents of socialist macroeconomics?

What contents will the socialist macroeconomic we establish need to include if it is to better accord with the needs of our country's initial stage of socialist development, the planned commodity economy, economic structural reform, national economic development and the opening to the outside world?

As the socialist macroeconomics we want to establish will be an independently-existing discipline, how should its specific research fields and research targets be expressed and selected? How will it relate to existing disciplines such as the socialist theory of social reproduction, planning economics, macroeconomic planning, the theory of comprehensive balance and the socialist component of political economics? How will the research targets of these disciplines differ?

When we propose these questions and try to answer them, it is deeply felt that socialist macroeconomic should serve reform and development, should take our country's economic structural reform as its core component and center around economic structural reform in analyzing macroeconomic phenomena, their scope and laws, so that this can become one of the theoretical bases for economic structural reform.

B. In Establishing Socialist Macroeconomics, It Is Necessary To Carry Out Systematic Research Into the Economic Structure

Our country's socialist economy is a planned commodity economy and at the same time is a commodity economy which operates under specific economic structural conditions. In the process of the development of the planned commodity economy, due to the change in the economic structural model, initially the traditional economic structure will play the guiding role. Following this, there will be a stage where the old and new economic structures form a double-track movement. Subsequently, there will be a period when the new economic structure will take the leading position. In these different periods, the phenomena, forms, categories and patterns of movement of the planned economy will not be the same and in some respects, very major differences will be observed. Thus, in the various types of complex economic phenomena, if we use abstract methods to carry out analysis, there will in fact exist two types of economic phenomena—the commodity economy phenomena and the structural economy phenomena.

What are meant by commodity economy phenomena are the various economic phenomena which everyone knows are produced by commodity production and commodity exchange, such as exchange of value, market regulation, selection of the superior through competition and so on. The structural phenomena refer to a series of economic phenomena which are produced in the micro-economic or macroeconomic fields under a specific economic structure and which are characteristic of this economic structure. These include economic phenomena, mechanisms, movement, categories and laws under specific economic structural conditions. In the same way as the commodity economy phenomena are everywhere, so the structural phenomena of specific economic structures are also seen everywhere. Our country's socialist economy is not only a planned commodity economy, but also a "structural economy." That is, it is a planned commodity economy under specific economic structural conditions. There are many economic phenomena which cannot be understood or comprehended just from the commodity economy angle, but which are easily understood from the structural economy angle. The putting forward of the concepts and ideas of "structural economy" and "structural phenomena" allows a deeper understanding of the nature of our country's planned commodity economy.

The famous Hungarian economist Kornai recognized many years ago that a socialist economy is a structural economy and that there existed many structural phenomena which could not be understood from the commodity economy angle. In his books "Economics of Shortage," "Growth, Shortage and Efficiency" and "Anti-Equilibrium" as well as in his paper "The Reform of Macroeconomic Policies: The Hungarian Experience" which he submitted to an international conference on macroeconomics held in China in September 1985, provide a great amount of analytical proof. In fact, a "shortage economy" is not an inevitable result of the development of the commodity economy, but rather a product of a special economic structure, that is, the traditional socialist economic structure. That is to say, investment hunger, shortages and so on are structural phenomena and they can change following changes in the economic structural model.

The establishment of socialist macroeconomics should begin with systematic research into the macroeconomic structure. Why do we say this?

1. As the planned commodity economy is concurrently a structural economy, many relevant macroeconomic theories can only be explained on the basis of systematic research into the economic structure. For example, there are people who hold that at present the characteristic of our national economic movement is "tight movement." Is tight movement an innate characteristic of a planned commodity economy in the initial stage of socialism, or a phenomenon of a specific (traditional or double-track) economic structure? I believe it is the latter rather than the former.

2. Only through systematic research into the economic structure will it be possible to fully and systematically grasp the commodity economy phenomena and the structural economy phenomena in the macroeconomy. This will allow full understanding of the objective demands of economic structural reform and the promotional role of economic structural reform in the areas of macroeconomic development and opening to the outside world. Only on this basis will we be able to put forward a macroeconomic theory which has significance for decision-making, strategy and prediction.

3. Through systematic research into the economic structure, we will be able to grasp the relationship between the various types of economic structure and their innate coordinative relationships as well as the characteristics of the overall form of the structural economy. This will ensure that socialist macroeconomics has a higher and more comprehensive theoretical level.

C. The Relationship Between Socialist Macroeconomics and Several Related Economic Disciplines

There is a relationship between socialist macroeconomics and many economic disciplines, and the former provides the latter with basic macroeconomic theories

and methods. At the same time, socialist macroeconomics exists independently. Seen from the present and from the angle of development, its theory is a large system. Following the strata of socialist macroeconomics, there are sub-strata of macroeconomic theories, which form the main trunk and the branch systems respectively. The establishment and development of socialist macroeconomics should not reject, replace or "squeeze out" other macroeconomic disciplines which form branches. Rather, there should be rational division of work and common development.

1. The relationship between socialist macroeconomics and other specialized macroeconomic disciplines. What is referred to as other specialized macroeconomic disciplines are other disciplines which similarly take the overall national economy as their target of research. These include macroeconomic planning, national economic management, the theory of social reproduction, the theory of national income, the theory of comprehensive balance of the national economy, development economics, the theory of national economic structure, the theory of the deployment of the productive forces and other economic disciplines. As compared to these specialized macroeconomic theories, socialist macroeconomics should be a more inclusive, more systematic, deeper and more comprehensive macroeconomic theory. In this way socialist macroeconomics can become a theoretical base for other macroeconomic disciplines or provide a theoretical foundation for them. It will not be easy to handle well the relationship between macroeconomics and specialized macroeconomic disciplines. For example, two published works "Socialist Macroeconomics" and "Macroeconomic Planning" are almost the same in several respects. This phenomenon of coincident similarity may well occur in future. The way out lies in clearly setting down the research targets of socialist macroeconomics. Then by proceeding from research into the economic structure and centering on the reform of the economic structure, a macroeconomic theoretical system should be established.

2. The relationship between socialist macroeconomics and modern Western macroeconomics. In the initial stage of socialism, the historical problem which needs to be resolved in the development of the social forces of production is the realization of industrialization and the commoditization, socialization and modernization of production. Our country's economic construction bears the double load of promoting the reform of traditional industry and trying to catch up with the world's new technological revolution. In order to achieve these tasks, we should absorb from modern Western macroeconomics those commoditization, socialization and modernization aspects of the capitalist economic development process which do not have an institutional nature and which can be used as reference. This will be of benefit to our country's economic development and in establishing socialist macroeconomics. However, it would not be desirable in the courses on socialist macroeconomics, to

excessively stress the introduction of Western macroeconomic theory or even, without linking up with China's reality and not concerning ourselves with the real conditions, quoting large amounts of things like the Cobb-Douglas production function, margins and marginal productivity, the Cobweb Theorem, the Acceleration Principle, the Multiplier Principle, and so on. We have already seen various macroeconomic works which have attempted this type of mistaken experiment. Of course, this is not to say that modern Western economic theory is not worth reading, but rather that this task should be taken on through specialized courses and textbooks or by reading the original works.

3. The relationship between socialist macroeconomics and the disciplines of economic structural research and comparative economic structures. Socialist macroeconomics and economic structural research do share some common points—they are that it is necessary to comply with the principle of unity between the subject (the subjective aspect) and the object (the macroeconomic aspect, the objective aspect); the principle of combining the macroeconomic and the microeconomic (the question of the microeconomic base of the macroeconomy); the principle of combining theory and reality; the principle of combining analysis in terms of total volumes with structural analysis and so on. However, we must distinguish the dividing line between these two disciplines, arrange rational division of work and ensure that both are independent. Socialist macroeconomics, which engages in systematic research into economic structural reform, which centers on the core content of economic structural reform and which serves reform and development, should not be confused with the study of economic structures.

4. The relationship between socialist macroeconomics and the socialist component of political economics. In general, these two disciplines differ in two basic ways. The first is that the socialist component of political economics talks about both enterprises and the overall national economy. Thus it includes both the microeconomic and the macroeconomic. The latter generally concerns itself with macroeconomic questions. Second, socialist macroeconomics carries out, on the basis of the general, basic exposition on the socialist economy provided by the socialist component of political economics, a high theoretical summary which allows a deeper understanding. However, the situation over many years has shown that the system of the socialist component of political economics is unstable and its contents are constantly changing. In recent years, new systems have successively appeared and new explorations have attracted people's attention. The socialist macroeconomics we want to establish will be able to avoid the duplication, repetition and unclear boundaries between these disciplines if overall, systematic, deep and comprehensive macroeconomic theoretical explanation is provided by proceeding from systematic research into the economic structure and centering on the question of economic structural reform.

D. Ideas for a Course System in Socialist Macroeconomics and Basic Macroeconomic Theories

We have two ideas for a framework for the system and basic theories of socialist macroeconomics:

Proposal 1: "Socialist Macroeconomics" (Outline)

Chapter 1 - General discussion of macroeconomics.

Chapter 2 - The theory of total social commodities and national income.

Chapter 3 - The mechanisms and theory of national economic activity .

Chapter 4 - The theory of macroeconomic structure.

Chapter 5 - The theory and methods of macroeconomic accounting.

Chapter 6 - The theory of macroeconomic development.

Chapter 7 - The theory of macroeconomic accumulation and investment .

Chapter 8 - The theory of macroeconomic employment and consumption.

Chapter 9 - The theory of the circulation of social commodities.

Chapter 10 - Macroeconomic price theory.

Chapter 11 - The theory of macroeconomic results.

Chapter 12 - The theory of macroeconomic funds movement.

Chapter 13 - The theory of an externally-oriented economy.

Chapter 14 - The theory of macroeconomic regulation and control.

Proposal 2: "Socialist Macroeconomics" (Outline)

Introduction

Section 1 - Macroeconomic Analysis

Chapter 1 - The macroeconomic system.

Chapter 2 - The mechanisms and process of macroeconomic activity.

Chapter 3 - The macroeconomic structure.

Chapter 4 - The microeconomic base of the macroeconomy.

Chapter 5 - The theory and methods of macroeconomic accounting.

Section 2 - Macroeconomic Development

Chapter 6 - An overview of macroeconomic growth.

Chapter 7 - The theory of macroeconomic investment.

Chapter 8 - The theory of macroeconomic employment.

Chapter 9 - The theory of macroeconomic consumption.

Chapter 10 - The theory of the development of social undertakings.

Chapter 11 - The theory of the development of an externally-oriented economy.

Chapter 12 - The theory of macroeconomic results.

Section 3 - Macroeconomic regulation and control

Chapter 13 - Macroeconomic decision-making and development strategies.

Chapter 14 - The regulation and control of total social funds.

Chapter 15 - The regulation and control of total social goods and materials.

Chapter 16 - Market mechanism and macroeconomic regulation.

Chapter 17 - The macroeconomic control and regulation of prices.

Of the two systems proposed above, I tend to favor the second one. However, regardless of which proposal is chosen, or whether a more appropriate course is adopted, it is necessary that there be deep discussion focused on the several basic macroeconomic theory questions below.

1. The methodology of macroeconomic research.

Macroeconomic research must first take the theories and the line formed since the 3d Plenary Session of the 11th CPC Central Committee, and particularly those on the initial stage of socialism which were systematically summed up by the party's 13th Congress, as overall

guiding ideology, and scientifically elaborate on the major guiding significance which the achievement of the historical tasks put forward by the party has in macroeconomic development.

We must establish a new research methodology whereby we use systematic research into the economic structure to systematically research the macroeconomic phenomena, categories and patterns of movement. In particular, we must place stress on researching the objective requirements of economic structural reform in terms of macroeconomic activity and development, as well as the necessity and feasibility of reform, and the structural effects, structural restrictions, structural impetus and structural results produced by the various economic structural models and their transitional forms.

We should utilize the methods of decisionmaking studies, strategic studies (economic and social development strategy) and future studies to study and explain socialist macroeconomic theory. We should also at quite high and quite deep levels propose a macroeconomic theory of decisionmaking significance, a macroeconomic theory of strategic significance and a macroeconomic theory of forecasting significance, and study and explain the possibility of realizing the transition of these macroeconomic theories into macroeconomic decisionmaking and macroeconomic development strategies, as well as the conditions necessary for this to be realized.

We should change the method by which the macroeconomy is talked about only in terms of macroeconomic theory and instead should analyze and research the microeconomic base of the macroeconomy from the angle of the relationships between the macroeconomy and the microeconomy.

We should change the method whereby analysis and explanation of the macroeconomy is carried out from an angle whereby stress is placed on "restriction" and "control," and establish an analysis and research method which looks at both restriction and stimulation, control and inducement, tight management and opening up. This will be of benefit in the smooth operation of the macroeconomy.

2. The theory of the macroeconomic structure.

We should put stress on a general theory which explains the socialist macroeconomic structure, and then other analysis of the macroeconomic structure should be specifically developed in the various chapters. These will include:

1. The emergence of the macroeconomic structure. This will involve looking at the objective demands of the planned commodity economy in the initial stage of

socialism for the formation of a new economic structure, as well as the national conditions necessary for this; the economic structural forms which the macroeconomy must adopt in the process of commoditization, socialization and modernization of a general commodity economy; and the restrictions which the existence of various types of ownership system in socialist society and their structural changes place on the emergence of a new economic structure.

2. The choice of a macroeconomic structural model. This will include a comparison of the good and bad features of the various specific economic structures (traditional, transitional and target models) and of the conditions and principles for selecting a macroeconomic structure; the strategic significance of macroeconomic structural decisionmaking and feasibility research; the theoretical foundation for the pace of and measures of economic structural reform.

3. Analytical research into the functions and roles of specific macroeconomic structures. This will include the various structural phenomena, structural effects, structural efficiency and structural benefits of specific macroeconomic structures, and the manifestations in the macroeconomy of the friction and coordination between them. It will be especially important to discuss the innate relationship between planning and the market, the rights-responsibilities-interests relationships between the various central sectors, and the macroeconomic manifestations of reform, development and opening up.

4. The process of economic structural reform. Stress must be placed on explaining the patterns of macroeconomic structural reform including the replacement of the old system by the new, concurrent existence, reversion, weakening and strengthening as well as changes in transparency and hardness; and the relationship between the stages of economic structural reform and the stages of economic development strategy.

5. The methodological problems in assessing the effects of the macroeconomic structure through quantitative analysis methods and graphic [zuo tu 0155 0956] analysis methods.

3. The theory of macroeconomic activity.

The theory of macroeconomic activity (national economic activity) mainly includes the theory of the mechanisms of macroeconomic activity and the process of the activity.

The process of macroeconomic activity is essentially the overall process of social reproduction and circulation. Thus, we must first link it theoretically with Marx' basic principle of social reproduction and then elaborate on the characteristics and specific movement of the production, distribution and use of total social commodities and national income under the conditions of a planned commodity economy in the initial stage of socialism. This will include the convective flow between the two major categories of social reproduction as well as value compensation, material exchange and accumulation and the selection of consumption and reproduction forms.

Second, we must study the relationships between macroeconomic activity and economic structural reform, as well as the formation and characteristics of macroeconomic activity mechanisms under specific economic structural conditions. We need to analyze the inertial role of the old economic system on macroeconomic activities, the macroeconomic activity mechanisms as well as the non-economic structural structural phenomena and factors in the activity process. An important point, which needs to be resolved in this section is whether or not tight movement of the national economy is an innate characteristic of our country's initial stage of socialism.

Third, we need to study the periodicity of macroeconomic activity and the reasons for this, the major significance of and routes for improving the efficiency and results of macroeconomic activity and the macroeconomic effects of economic structural reform.

Finally, we must study the methods of quantitative analysis and dynamic analysis of macroeconomic activity, and the methodology for indicating fine cycles and poor cycles.

I believe that theories in the three major areas noted above are the most basic theories of the socialist macroeconomics we want to establish. If we handle the theory questions in these three respects quite well and can carry out deep and systematic analysis and explanation, then it will be possible for us, in respect of other macroeconomic theory questions such as the theory of the macroeconomic structure, the theory of the microeconomic base of the macroeconomy, the theory of macroeconomic accounting, the theory of macroeconomic development, the theory of macroeconomic investment, the theory of macroeconomic employment, the theory of macroeconomic consumption, the theory of macroeconomic results, and the theory of economic regulation and control, to put forward scientific expositions which accord with our country's reality.

Destiny of State Ownership in Reform Discussed in Article

40060301 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3 Mar 88 pp 17-33

[Article by Yu Guangyuan [0060 0342 6678], vice president of the Chinese Academy of Social Sciences: "Leasing and the Contracted Management Responsibility Weakening Socialist State Ownership"]

[Text] 1. In almost all socialist countries, state ownership dominates the entire socialist economy. This is a fact socialist reform must deal with from the start. A major issue in socialist reform is figuring out what to make of and what to do about socialist state ownership.

2. The formulation of policies and principles must be based on the law of development of the object concerned. In deciding what attitude to take toward socialist ownership, we must look at its nature, understand how it comes about, its basis for existence and development, its internal contradictions, and its contradictions with external objects, and master its laws. Only by scientifically analyzing its destiny in reform can we come up with policies on socialist state ownership scientifically.

3. The issue in reform is one of perfecting the socialist basic system, not one of replacing it with other basic social systems. In reform, things that belong to the socialist basic system must be preserved. Social ownership is a basic attribute of socialist ownership and belongs to the basic system. However, socialist state ownership is only a form of social ownership and is not part of the basic system. As state ownership does not belong to the socialist basic system, it is not above reform. It is wrong to consider state ownership a basic attribute of socialist ownership.

4. The formation of socialist state ownership has two sources. One source is the existence of the state in a socialist society and the various functions of a socialist state derived therefrom. The other source can be found in the course of the victory of the socialist revolution. I refer to socialist state ownership derived from the first source as indirect socialist state ownership and that derived from the second source as direct socialist state ownership. These two types of socialist state ownership are theoretical abstractions only and we differentiate between them merely to facilitate analysis. In point of fact, the two are interwoven and are inseparable. Socialist state ownership in the real world is a hybrid of these two different sources. In reality, there is only one socialist state ownership. Nevertheless, depending on its source, socialist state ownership follows different laws of change in the course of reform. To determine the destiny of socialist state ownership in reform scientifically, we may first analyze the two forms of socialist state ownership individually and then examine them together.

5. The first source of socialist state ownership. According to the Marxist theory of state, the state cannot be abolished; it can only wither away on its own. After private ownership is overthrown and the old state machinery is smashed, the proletariat must establish new state machinery (a thesis verified by subsequent practice). The new state machinery must first discharge the functions of suppressing reactionary forces at home and resisting aggressors from abroad. For this reason alone, the state must command powerful material resources and vast assets over which it has total control. Even more important, of course, before the state withers away the center of social management must be one and the same thing as the state machinery. The state serves as the center of social management and, in the process of doing so, brings the power of the state to bear if necessary. As a result, the state assumes a mission more important than suppression—organizing economic and cultural construction—and must therefore possess even more material resources.

6. To discharge its multi-faceted functions, the socialist state must levy taxes on an income-producing organization—the enterprise. Thus the socialist state derives benefits without going into business itself. Based on the fundamental concepts of "ownership" and "property," part of the assets of the this economic organization belongs to the socialist state. Levying taxes on individuals can also be considered as levying taxes on enterprises because in the absence of personal taxes, enterprises can lower costs and increase revenues. "The right of a state to collect taxes flows totally from socialist state ownership." Tax collection is the economic manifestation of state ownership.

Engels on Tax Collection and State Ownership

Engels wrote, "In essence, taxation is a purely communist principle because the right of the state to tax derives entirely from so-called state ownership. Indeed, either private ownership is sacred and inviolable, in which case the state does not have taxing power, or the state does have this power, in that case private ownership is not sacred or inviolable, state ownership is superior to private ownership, and the state is the real master. The latter everybody acknowledges. Well, then, gentlemen, all we ask of you now is that we all comply with the principle and demand that the state declare itself the master of the entire nation and put social properties to work for the well-being of all. We demand that the state adopt a tax collection method that takes into account the ability of every individual to pay taxes and the genuine welfare of society at large." ¹ I think Engels' words are consistent with the basic concept of "ownership." That is, if state ownership gives the state certain economic benefits, then the state obtains certain economic benefits without going into business itself. This shows that state ownership indeed exists. It is said in "The Book of Songs, Dynastic Hymns, and Northern Mountain" that "all land under the broad heaven belongs to the emperor,

and all men across the land are but his subjects." Everybody in the land had to do forced labor for the emperor. This too testifies to the existence of feudal state ownership.

7. Socialist state ownership derived from the existence and functions of the state may not exist independently. That is, it permeates other socialist ownership systems. In this case, it is indirect socialist state ownership because it actualizes itself economically through other socialist ownership systems.

8. This particular source of socialist state ownership will not wither away in the course of reform. The state will not wither away in the historical stage of socialism. (The withering away of the state can be realized only in the stage of communism, which is higher than the stage of socialism.) Thus this kind of socialist state ownership will not wither away in the entire historical stage of socialism.

9. If we say that we should adhere to the above-mentioned kind of socialist state ownership in the course of reform, then such adherence is directly related to adherence to the socialist road. The state is needed to exist long term in a socialist society in order to discharge its multi-faceted functions to ensure success for the socialist cause.

Marx and Engels Hardly Said Anything About the Functions of the State in a Socialist Society

Marx was most objective when he discussed the functions of the state in a socialist society in "Critique of The Gotha Program." He wrote, "The different states of the different civilized countries, in spite of their motley diversity of form, all have this in common, that they are based on modern bourgeois society, only one more or less capitalistically developed. They have, therefore, also certain essential characteristics in common. In this sense it is possible to speak of the 'present-day' state, in contrast with the future, in which its present root, bourgeois society, will have died off.

"The question then arises: What transformation will the state undergo in communist society? In other words, what social functions will remain in existence there that are analogous to present state functions? This question can only be answered scientifically." ²

Marx only raised but did not answer this question. At the time he lacked the materials necessary for an answer. Nor was there an absolute need to answer it. Today, we need to find a scientific answer and have sufficient materials to do so. The state exists in a socialist society because it discharges the functions indispensable to such a society. The experience of socialist states over the decades shows that there are indeed many similarities between the social functions of a socialist state and the "functions of a modern state" noted by Marx here.

10. About the second source of socialist state ownership.

Here we look at socialist state ownership as an inevitable product of the victory of the proletarian revolution. If the victory of the proletarian revolution and socialist economic construction proceed as Marx and Engels predicted in the "Manifesto of the Communist Party," "the first step in the revolution by the working class is to raise the proletariat to the position of ruling class." Then the proletariat "will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the State, i.e., of the proletariat organized as the ruling class; and to increase the total of productive forces as rapidly as possible." ³ The resultant socialist ownership cannot but be socialist state ownership.

The Foundation of Socialist State Ownership After the Triumph of the Revolution Is Laid in Capitalist Society

Is there a basis in fact for the notion that socialist state ownership will come about after the revolution triumphs? Or is it merely an idea, a hope? No. Engels put it well, "The capitalist mode of production more and more forces people to turn massive socialized means of production into state properties. Moreover, capitalism itself points up the way to effect this change. The proletariat will seize state power and the first thing it will do is to turn means of production into state properties." ⁴ When Lenin proposed, before the October Revolution, that socialist state ownership be instituted in Russia after the revolution, he was basing himself on the experience of state monopoly capitalism of the time. This we all know.

11. Socialist state ownership that comes about in this manner takes the form of direct ownership by the socialist state of land, factories, mines, means of transportation and communication, stores, banks, machinery, equipment, miscellaneous tools of production and other tools, countless enterprises and other economic organizations owned by the socialist state, and an entire management system of socialist state ownership. We see it in China and numerous other socialist countries.

12. In reform, what receives most attention is socialist state enterprises and their management by the state. It is this aspect of socialist state ownership that economists focus on when they discuss socialist state ownership in the course of socialist economic restructuring. This is also the one issue in reform most in need of study and resolution.

What we want to examine here is regular state enterprises, not those special state-owned enterprises depended on by the state to discharge its essential social functions, such as enterprises in the defense industry and urban public utilities, among others.

13. The second source of socialist state ownership will not function for long. It is most effective during the revolution and in the early days of revolutionary triumph and remains effective in the entire transitional period from capitalist to socialist society. Thus its existence is historically inevitable at the beginning of and throughout the transitional stage. However, whether or not its existence remains a historical inevitability as this stage draws to a close and beyond has yet to be determined.

14. Because there is more than one reason for the creation of the existing form of socialist state ownership, we can arrive at this conclusion about the historical destiny of socialist state ownership in reform: Socialist state ownership of the first source will exist on a long-term basis in the historical stage of socialism but its actual form may vary accordingly. As for socialist state ownership of the second source, a new study is necessary to determine whether that part of it created under a special set of historical circumstances in the course of revolutionary victory will continue to exist.

15. In short, socialist state ownership is a particular product of a particular set of historical circumstances. This determines that we must evaluate it in the context of a specific set of historical conditions. We should not discuss it in abstract in isolation from historical conditions.

16. All forms of socialist state ownership discussed in the works of Marx and Engels were presented as things of the transitional stage. This is true for state ownership, collective ownership, and the cooperative system. The question of socialist ownership in the post-transitional period was not touched upon.

This is no accident. Form, after all, is tangible. Since the founders of Marxism refused to speculate or to discuss specific issues about the future society, they naturally refused to look at forms of ownership in the future society. What they did discuss was only the basic nature of ownership in a communist society and socialist society—social ownership, not the forms of ownership. On the other hand, they did elucidate, very early on and at considerable length, the forms of socialist ownership in the transitional period. This is because their philosophy was not only one of understanding the world, but also of changing it. Thus they did more than study the objective laws of historical development. They also studied the programs, strategies, tactics, steps of advancing historical development, the progress of revolution, and moves to be taken after the victory of the proletarian revolution. In the process, what form socialist ownership should take in the course of revolution and during the transitional stage from capitalist to socialist society became the object of their exposition.

Socialist State Ownership in the "Manifesto of the Communist Party"

Marx and Engels discussed socialist state ownership at length and in considerable detail. In the "Manifesto of the Communist Party," for instance, they advanced the

general guiding philosophy, namely that after seizing power, the proletariat must "intervene coercively in ownership and bourgeois relations of production." Of the 10 measures enumerated in the "Manifesto," as many as 5 had to do with socialist state ownership. They were abolition of property in land and application of all rents of land to public purposes; confiscation of the property of all emigrants and rebels; centralization of credit in the hands of the state by means of a national bank with state capital and an exclusive monopoly; centralization of the means of communication and transport in the hands of the state; and extension of factories and instruments of production owned by the state. Two others—"a heavy progressive or graduated income tax" and "abolition of all right of inheritance"—would also lead to the appearance and expansion of socialist state ownership.

Clearly, what Marx and Engels had in mind here were some of the measures the proletariat must take after their successful revolution. Nevertheless, they said, "these measures appear economically insufficient and untenable."⁵ In other words, they assumed that additional measures were necessary. So they went on to say, "in the course of the movement they will outstrip themselves," "necessitating further inroads upon the old social order."⁶ It is very clear from these words that after socialist state ownership comes into existence, the form such ownership takes would continue to develop as socialist transformation intensifies and the socialist economy grows.

17. Whatever its source, the kind of socialist state ownership we are discussing refers to the type that exists in the socialist society after the transitional period. In this historical stage, the need to use the proletarian state to establish a socialist economy no longer exists. Nor does the need to bring to bear the economic forces of socialist state ownership and the political forces of the socialist state in order to find out who is the victor, socialism or capitalism. Today we need to examine the future historical destiny of socialist state ownership based on the current historic mission and the means for fulfilling such a mission. We must evaluate that kind of ownership in light of its effect on social productive forces in the present historical period.

18. China today is in the initial stage of socialism. In 1979, after 22 years during which socialist development suffered severe setbacks because of inexperience and leadership errors but which also taught us a profound lesson, China entered the second stage of the initial stage of socialism—reform. In the words of the report to the 13th NPC, "The initial stage of socialism in China is a stage when China gradually shakes off poverty and backwardness, when it gradually changes from an agricultural nation based on manual labor with a largely agricultural population into a modern industrial nation with a largely non-agricultural population, when it develops from a natural or semi-natural economy into an advanced commodity economy, when it establishes and

develops, through reform and exploration, a socialist economic, political, and cultural order that is full of vitality, and when the entire people rise and work hard to bring about the revitalization of the Chinese nation.”⁷ To quote further from the report to the 13th NPC, “in the initial stage of socialism, we must make the development of productive forces the focus of all our work in order to shake off poverty and backwardness. Whether or not it promotes the development of productive forces should become the starting point when we consider every issue and the basic criterion when we evaluate all work.”⁸

Such, therefore, should be our yardstick in studying the issue of socialist state ownership today. Many fundamental shortcomings exist in the state management of state enterprises today which we have known and discussed for some time. Generally speaking, however, the dominance of socialist state ownership continued to be reinforced in the pre-reform days in all socialist nations in the world. Only in the midst of reform did people talk about it as a possible subject of reform. Opinions on socialist state ownership are sharply divided. By and large, there are three schools of thought. One proposes that socialist state ownership be kept, arguing that it is basic to socialism and that to tamper with it is to weaken the foundations of socialism. Essentially, therefore, this school leans toward keeping the status quo, although it also acknowledges the universally recognized shortcomings in the system and is prepared to tinker with them. The second school believes that from the perspective of practical necessity, socialist state ownership should largely be preserved, but that preservation should be accompanied by root-and-branch reforms. Yet a third school calls for the replacement of socialist state ownership by other socialist ownership systems. People of this school oppose the second as well as the first schools. They argue that it is an impractical idea to preserve socialist state ownership and carry out fundamental reforms at the same time. This issue must be resolved through careful study.

19. First we must work out a methodology with which to examine this issue.

Reform involves subjective choices. However, subjective choices must rest on objective bases, one of which is that our choice must be attainable through objective efforts. Second, once realized, this choice must produce better results than other alternatives. For us socialists, “good” here means promoting social progress—social productive forces, people’s well-being—more effectively. This requires us to place this form of socialist state ownership in the overall context of socialist construction and the entire process of socialist development, and analyze it accordingly. This also requires us to examine objectively the changes this form of socialist state ownership has experienced, is experiencing, and will experience in the course of reform and its historical destiny.

20. We analyzed above the two sources of socialist state ownership for these reasons. The first is to clarify the object of discussion so that we would no longer be

discussing a generalized matter but something that has been analyzed to an extent. The second is to differentiate between the bases of existence of socialist state ownership so that we have a clearer idea of which parts of socialist state ownership should and can be reformed and which parts should be kept and affirmed, and clear up some muddled thinking. But even more important to an objective study of the destiny of socialist state ownership in reform is an analysis of the way socialist state ownership affects socialist economic development.

21. Concerning the effects of socialist state ownership on socialist economic development, I propose to examine it within the following mental framework: 1) I think it is necessary to confine our review to socialist state enterprises and their management by the state. In other words, let us first clarify the matter in this smaller area before moving on to look at other aspects of socialist state ownership. 2) Let us examine the behavior of the four players within the above-mentioned scope. The individual worker in an enterprise, enterprise decision-makers or enterprise leader, economic management organs for the sector or locality, and the central government, the state’s chief representative, and see what consequences their behavior has for socialist economic life. 3) Then we will put together these consequences and consider them overall to decide how we should evaluate these forms of ownership. 4) We should pay particular attention to the relationship between forms of socialist state ownership and the development of socialist commodity economy, identify the nature of the contradictions between the two, and look for ways of resolving those contradictions. This has special significance for any study of the historical destiny of this kind of ownership.

22. In this context, the “individual laborer” refers to the person who engages in labor using means of production. He consumes materials in the pursuit of life, enjoyment, and growth. He is made of flesh and blood and has feelings, thoughts, and dreams. Besides being a producer, he is a consumer whose needs society must satisfy with its products. What concerns us most here about the individual laborer is whether or not the enthusiasm and creativity of such a laborer in a state enterprise can be effectively tapped, a point that escapes some Western scholars studying socialist structural reform and economic work in China. Some Chinese scholars too do not have a full understanding of this point. I believe we must elevate it to the most important position.

23. For years the enthusiasm and creativity of individual workers in state enterprises have been suppressed. Things have improved since the 3d Plenum of the 11th CPC Central Committee, but the problem has not been eradicated. In China, whether on the macro level—that is, in the entire socialist society, or on the micro level—eg., within a particular state enterprise, the workers are the masters. The individual worker understands this in theory. But the enterprise has its own system (for instance, there is no workers representative assembly to

realize the workers' status as masters.) Since workers are masters of society and enterprises, they should display a high level of enthusiasm and creativity. While individual workers behave differently from one another, the majority—excluding those of an exceptionally high socialist consciousness—turn up for work and knock off at the appointed time, comply with work rules, and meet their quotas. But they display only moderate to average, not strong, enthusiasm. Meanwhile, enterprises in capitalist nations today are also poring over so-called "behavioral science" in an effort to find ways to squeeze more output from their workers. As a result, there is little essential difference between the behavior of Chinese workers in their daily work and that of their capitalist counterparts today.

24. In the final analysis, the behavior of the worker in China's state-owned enterprise today remains evocative of wage labor to varying degrees. While it is essential to strengthen ideological education with this particular situation in mind, ideological education by itself will not resolve the problem in any basic way. One reason is one of understanding, but an even more important one is institutional. In a state enterprise, there is a duality to the status of the individual worker. A master, he is also a hired hand, except that he is no longer hired by a capitalist, but by the state which belongs to the workers themselves. Describing the economic system in the first phase of communist society in "The State and Revolution," Lenin wrote, "Accounting and control—that is mainly what is needed for the 'smooth working,' for the proper functioning, of the first phase of communist society. All citizens are transformed into hired employees of the state, which consists of the armed workers. All citizens become employees and workers of a single country-wide state 'syndicate.' All that is required is that they should work equally, do their proper share of work, and get equal pay."⁹ It was the guiding philosophy set forth by Lenin in "The State and Revolution" which formed the basis for the socialist state ownership established in Russia after the October Revolution and, later, in other socialist countries. Since individual workers in state enterprises are also "employees," their behavior is inevitably evocative of that of wage laborers.

"Wage" and "Employment"

Translated literally, Marx's "lohnarbeit und kapital" should be "wage labor and capital." It is not wrong to translate it as "hired labor and capital" because hired labor is exactly wage-earning labor. Yugoslavia does not use the word "wage" precisely because they argue that in Yugoslavia, workers under "self-managed social ownership" are not hired laborers. Thus they substitute the idea "income" for what other countries call "wage." I support the use of the idea of "wage" in China. This is because under socialist state ownership, workers are still the employees of the socialist state or a state enterprise, even though this kind of employment is essentially different from that under capitalism.

25. Of course, being a socialist state employee is in essence totally different from being a capitalist "state employee" and being an employee and worker of an all-people, nation-wide syndicate is in essence totally different from being an "employee and worker of the private 'syndicate' of a monopoly capitalist." However, we need to translate these essential differences into objective phenomena of which individual workers in state enterprises are perceptually aware in their daily lives before the workers would demonstrate in a sharp and clear-cut manner that being an employee of a state enterprise should be basically different from being an employee and worker of a capitalist enterprise. It is imperative that we educate individual workers to make them rationally aware of those essential differences. Such education may also influence their behavior. Nevertheless, existence determines consciousness. As long as the employment relationship exists, it is impossible to extensively eradicate the hired hand mentality. Before we can make workers feel completely like social masters, we must change socialist state ownership. Not only that, but we must also make sure that other socialist ownership systems chosen to replace socialist state ownership are also free from any kind of hiring relationship.

26. That, to me, is unattainable at the present stage and in the foreseeable future. Neither those who advocate root-and-branch reforms within the framework of socialist state ownership nor those who advocate the replacement of socialist state ownership with other forms of socialist ownership offer a solution. Even the latter probably cannot come up with a form of socialist ownership totally free from any vestiges of hired labor, one in which the behavior of the individual worker is totally free from traces of that of the hired hand. Perhaps this problem will not be completely resolved in the entire socialist historical stage. Involved here is the understanding of the principle of distribution according to work.

27. It seems that our only alternative is to find a way which is not perfect, but which is better, much better, than the present situation. There are two development directions here. One is to further democratize socialist economic life and upgrade the status of workers as masters, hence their consciousness as people in control. Democracy is an important concept in socialist economic life as well as a political concept. I believe that if we follow this direction, we can improve worker initiative and creativity. In the other direction, we emphasize the role of the individual in socialist economic development and adopt a variety of effective measures to raise socialist initiative among workers. Whether we follow the first or second direction, the founders of Marxism had left us much precious ideological and theoretical legacy.

"Individual Ownership" in the Post-Private Ownership Stage

Marx arrived at this important conclusion at the end of Chapter 24, "Capitalist Accumulation," of Volume 1 of "Das Kapital," "The capitalist mode of appropriation,

the result of the capitalist mode of production, produces capitalist private property. This is the first negation of individual private property, as founded on the labor of the proprietor. But capitalist production begets, with the inexorability of a law of Nature, its own negation. It is the negation of negation. This does not re-establish private property for the producer, but gives him individual property based on the acquisitions of the capitalist era: i.e., on cooperation and the possession in common of the land and of the means of production."¹⁰

Concerning "ownership," there are two "negations of negation" in the works of Marx and Engels. One is "public ownership—private ownership—public ownership." The other is what Marx is talking about here. Comparatively, the first negation of negation has been more extensively researched than the second one. Engels says in "Anti-Duhring," "Social ownership covers land and other means of production. Individual ownership covers products and objects of consumption."¹¹ The writers of books and articles usually interpret this to mean that "to re-establish individual ownership is to re-establish only individual ownership of consumer goods." But there are others who interpret his words differently. In my opinion, we should certainly defer to Engels when interpreting Marx's words. Marx's "re-establishing individual ownership" should be interpreted as follows. In the new post-capitalist production society, production is carried out using means of production owned by society, and the resultant products—the final products being consumer goods, of course—are owned by individuals. What this means is that since production in socialist or communist society is socialized mass production, after private ownership is overthrown, land and means of production can only belong to society made up of myriad living individuals. And the products—repeat, the final products being consumer goods—can only be consumed by individuals separately. And before products are consumed, they must come into the possession of individuals. Here social ownership and individual ownership are dialectically united.

However, we have done very little research on the role of the individual in production in socialist or communist society, whereas Marx and Engels expounded at length on the role of the individual in social development. There were noteworthy discussions in "German Ideology," in the works leading to "Das Kapital," and in many other places. They called for man "to be an individual character."¹² They consistently made this kind of person the object of their concern and considered what belonged to society belonged to individuals together. Some comrades propose that we study individual property in socialist society. I think that is a sound suggestion.

28. If we say that most individual laborers have a dual identity—they are both masters of society and employees of the state, then enterprise leaders too have a dual identity—they are both representatives of an enterprise

and individual workers. Below we discuss the behavior of enterprise leaders, not in their capacity as individual workers, but as representatives of an enterprise's status and interests.

29. The state enterprise in its original form, that is, the state enterprise that grew up through the victory of the revolution and in the transitional stage, untouched by reform, has the following basic attributes: 1) All its means of production, including fixed assets and working capital, belong to the state. The enterprise can use them as the state wishes, but it cannot sell, lease, or transfer them; 2) The establishment, continuation, and termination of the enterprise is entirely up to the state; 3) The scope of operations and enterprise policies are totally determined by the state; 4) The enterprise must fulfill the command plan handed down by the state and any other tasks assigned by the state; 5) The enterprise must submit itself to state labor management (including wage management) and financial management, etc.; 6) The enterprise cannot keep any business secrets from the state; 7) The enterprise's output belongs to the state and are allocated or sold in accordance with state regulations; 8) Apart from paying taxes to the state, the enterprise must turn over profits in accordance with state regulations. It can keep a portion of its profits as its own accumulation fund, welfare fund, and reward fund. Means of production formed by the expending of accumulation funds still belong to the state; 9) Enterprise leaders are appointed, rewarded, and punished by the state. The enterprise must hire and dismiss workers in accordance with the state's labor and personnel systems, etc. To alter any one of these many regulations is regarded as a departure from this pure form of socialist state ownership or a weakening of the socialist ownership nature of the enterprise.

Under these conditions, the behavior of enterprise decision-makers and leaders (referred to hereafter as enterprises) is severely circumscribed. They become mere executors of state instructions with meager decision-making power. Since enterprises have little power and can act on their own initiative only within a strictly defined area, their responsibility is negligible. So far we have been looking at enterprise behavior at an administrative level, focusing on the relationship between the enterprise and its higher authorities. In addition, within the enterprise itself, the so-called director responsibility system under party committee leadership reins in the enterprise in a way that is not justifiable. This is the legal situation. In fact, enterprises do find some room to maneuver through the cracks of state ownership and management.

30. Under socialist state ownership, what benefits that accrue to the socialist enterprise consist only of that portion of its profits it is allowed to retain. While the distribution of this sum of money among the accumulation funds, welfare funds, and rewards fund must follow a ratio set by the higher authorities, this sum of money remains under enterprise control. Thus a most important

part of an enterprise's conduct is how it augments this sum of money absolutely. One way is to increase the overall profit level, particularly the surplus after fulfilling its profit target since that will boost the portion of retained profits. Herein lies the economic basis for the motive force of enterprise operators. When money is needed to expand production capacity, they will enthusiastically approach the state for money. Of course, profits can also be raised through improved operations and higher productivity. But since enterprises are allowed to retain only a small share, the resultant driving force is not strong. To increase enterprise vitality, therefore, we must think of ways to change this relatively pure model of socialist state ownership by introducing several new elements.

31. The behavior of an individual worker manifests itself mainly in labor, that is, in the relationship between man and nature. He can make an impact in some ways on interpersonal relationships too. For instance, if he is dissatisfied with the bureaucratic style of the enterprise or the management organizations, he can complain to the proper authorities or air his views in public. In daily life, however, there is little an individual worker can do in interpersonal relationships. Moreover, when he is highly dissatisfied and critical, he can verbalize his intense displeasure, or even more important, demonstrate it in the form of passive labor. That is, through a "silent" language. In contrast, the behavior of an enterprise is much more complicated than that of an individual worker. It is multifaceted and one can hardly tell which aspect is more important.

32. Enterprise behavior manifests itself in the relationship between man and nature, its relationship with individual workers, and its relationship with the state.

1) Enterprise behavior as shown in the relationship between man and nature. The enterprise concerns itself with the struggle to change nature and is interested in raising labor productivity because such is the basis for increased profits. Accordingly the enterprise devotes itself to unleashing its existing productive forces, increasing its labor productivity, expanding and transforming its plants, and adding and replacing machinery and equipment to enhance its production capacity.

2) Enterprise behavior as demonstrated in its relationship with individual workers. It is the individual worker who is in direct struggle with nature. To increase output and run the business successfully, the enterprise feels compelled to bring into play individual workers' initiative and creativity in many ways. Accordingly, they need to do several things for individual workers. They have to concern themselves with the latter's material and spiritual lives and help them solve problems which cannot otherwise be solved. Enterprises understand the importance of applying the principle of material benefits to workers and providing them with necessary services. But this is only part of the story. The other part is that the enterprise must keep an eye on production costs and

hence hold the line on labor wages. Then there is also the notion that a state enterprise must "represent state interests." (It is thought in some quarters that enterprises more often than not side with the worker to the neglect of state interests. Some people even metaphysically ask whether the factory director should represent the workers or the state.) In the process the contradictions between the state and individual workers become those between the enterprise and workers. In short, the relationship between enterprise and individual workers is ridden with various contradictions.

3) Enterprise behavior as demonstrated in its relationship with the state. Since it is a state enterprise, it naturally has the desire to contribute to the state and act accordingly. It subjects itself to state leadership and management, implements state policies, obeys the law, observes discipline, and executes the plan. At the same time, it seeks support from the state (both active and passive.) For example, it often bargains with the state when it wants money, projects, investment, energy and materials, or when determining the scale of a task and the distribution of profits. Since the enterprise is subordinate to the state, what the enterprise can do is to make suggestions. When its suggestion is rejected or ignored, there is not much else it can do.

In short, these are the enterprise's interests: First, that it can work smoothly; second, that business would expand successfully; third, that employees' welfare would improve; and fourth, that its reputation would grow. And it behaves accordingly.

33. The government manages the state through sectorial and local managerial departments. A multitude of such managerial departments regulate enterprise activities in every way, including some departments which are the enterprises' immediate superiors and exercise comprehensive supervision. Empowered by the state, these managerial departments demand to hear reports from the enterprise, issue official documents to it, and despatch a variety of work groups to it. Their approval is required before the enterprise can do a certain thing. It is these managerial departments that the enterprise is directly in contact with. Their mission is to complete the task assigned by the state, fulfill their responsibilities, and offer miscellaneous services favored by the enterprise. In the past, however, there were just too many over-staffed managerial departments meddling in details and trivia. Bureaucratism was serious. The result was that much of what they did hindered rather than helped the enterprise. To discharge their missions, the departments kept the enterprise on a tight leash so much so that the latter could not bring its own initiative into play. To a large extent, administrative simplification was aimed at these departments. Nevertheless, years of practice show that the more we emphasize organizational streamlining, the more these departments tend to proliferate and expand.

34. The socialist state is the owner of the means of production of the state enterprise. The state in itself is a powerful political force. Legally and economically, its power over the state enterprise is not subject to any limits. The organization which exercises state power is the government. No authoritative government has absolute authority. In exercising state power, the government is often hemmed in by this or that social force, be it large or small. Government often has to compromise. Also, government behavior may be influenced by social or public opinion.

Government behavior cannot but be conditioned by objective factors, including the country's level of social, economic, and cultural development and other historical reasons. This is particularly true in a populous vast nation like China where development varies tremendously from region to region and sector to sector. Even if we have more efficient government workers in larger numbers, there is no way the government can come to grips with an ever-changing situation and make the necessary response in a timely way. This is the objective reason why government cannot do a good job. Then there is a subjective reason conditioning government behavior, namely the caliber of government workers, including leading government workers. This situation is common to all countries and is a glaring problem in China. The subjectivist and bureaucratic way of thinking and work-style of government workers all affect the propriety of government behavior. Under these circumstances, the more powerful the government vis-a-vis the state enterprise, the more suppressed and damaged the initiative and creativity of individual workers in the socialist enterprise will be. In the end, enterprises will show less and less vigor.

35. Because both the state enterprise itself and government management of that type of enterprise were plagued with problems, we tried to reform socialist state ownership in many ways in the 9 years since the 3d Plenum of the 11th CPC Central Committee. However, what reform there was was not carried out in the name of overhauling socialist state ownership. On the contrary, we affirmed this system in all official documents and did not really criticize the system itself. What we did criticize was a number of specific things that apparently became associated with socialist state ownership without being an inherent part of it. In reality, this is not so. Already reform has in many ways affected socialist state ownership itself. The state enterprise as we knew it has changed and is changing in many important ways. The socialist state ownership we see today is not entirely the same as that we had 9 years ago. Socialist state ownership has not changed in any fundamental way, but the changes that have occurred can hardly be called insignificant. Today we must investigate the changes in post-reform socialist state ownership. That is the only way to get a clear idea of what kind of socialist state ownership we are now reforming and identify the laws of change and development of socialist state ownership amid reform.

36. More than anything else, the issue of power has been on everybody's lips in these several years after reform began. We talk about "expanding the decision-making power of the enterprise," "decontrol," "delegation of power," and, finally, "the separation of ownership from management" in the realm of theory and "leasing and the contracted management responsibility system" in practice. Critical to all this is "power." Expanding enterprise managerial power is a key direction in the reform of socialist state ownership.

37. Before saying what I think about separating ownership from management, I must explain the meanings of these concepts: "ownership," "ownership right," "management," and "management right."

Let me start with the meaning of "ownership" or "property." (Marx and Engels used the same German word in their writings.) As I see it, "ownership" or "property" refer to a kind of interpersonal relationship. We can define it thus: to own something is to appropriate something. And merely by appropriating it, one derives economic benefits from it. In this context, appropriating something means being able to do what one wants with it and putting it under one's sole control. This definition rests on two premises. One is appropriation, but appropriation alone does not amount to ownership. It also entails the securing of economic interests. However, managing something and deriving economic interests from appropriation do not amount to the economic realization of "ownership." The idea of management must be removed from the concept of pure "ownership." Then how do we define management, and I mean only economic management here? I define it as follows: a social practice directly aimed at gaining economic interests. In other words, social practice which does not directly seek economic benefits (such as reform) falls outside the scope of the concept of management. Reform is a social practice aimed at removing obstacles and creating conditions for management.

Once the concepts of "ownership" and "management" are clarified, we can proceed to discuss the relationship between "ownership" and "management." In a society where all means of production and output belong to one entity, the objects of management can only be the possessions of that entity. For ownership to be ownership, one must make use of what one owns to secure economic benefits. However, since all economic benefits derive directly from "management," there can be no ownership without management. Management, therefore, is the basis for ownership.

Since "ownership" and "management" are two different concepts, they are naturally separate from each other. As a pure concept, the realization of ownership must be based on the removal of management.

Since ownership and management are two different concepts, the power to own and the power to manage are also two different concepts.

Like property right, ownership right is a legal concept. It means that the law recognizes and protects an entity's possession of a certain thing. Law here includes both written and unwritten law. Management right means that the managerial activities of a certain entity are free from interference and are recognized and protected under the law. When we derive economic benefits from "ownership" and "management," we are talking about economic realities. When we derive economic benefits from "ownership right" and "management right," we secure economic benefits through these rights. Certainly the two are the same. But then there is also this difference; namely, that legally speaking, we cannot talk about "ownership" and "management" without talking about "ownership right" and "management right."

Since ownership right and management right are two different things, they are of course "separate." Strictly speaking, one cannot begin to talk about "separate" and "inseparable." The only question is whether the owner and manager are one and the same entity. And indeed, they may be. Or they may not. Not only are both situations possible, but there are many other possible and more complicated situations.

Generally speaking, when one manages, one manages something. Put it differently, one cannot manage without using something. To manage something means appropriating something in accordance with specific managerial practices. To manage and to own both involve appropriation. But to manage something does not amount to owning it. Nor does appropriating something in the course of management amount to appropriating it through ownership. If the owner himself is also the manager, he appropriates it through management and no consent from others is required. In this case, he derives economic benefits from his own management. In other words, he realizes his own ownership economically through his management. On the other hand, if the owner himself does not manage, he must let the manager obtain economic benefits through management and then demand a price from the manager in his capacity as owner. Otherwise, he will not be able to realize his ownership economically and in fact loses what he owns. Therefore, if the owner is not also the manager, management by a separate entity is a prerequisite for the realization of ownership. In other words, if the owner is not also the manager, the transfer of management right to another entity is a prerequisite for the true realization of ownership right by the owner.

38. Let's now look at some of the relationships between "ownership right" and "management right" in human social history based on the concepts of ownership, management, ownership right, and management right. History tells us that owner and manager might be the same person or they might be different persons. Two situations could be found in feudal society. In one situation, the landowner managed his own land and allowed the peasants to work in his manor, the resulting products to belong to the feudal lord. Manors managed by feudal

lords themselves in this manner abounded in ancient times. Even as recently as the days of land reform in China, one could still find, while classifying rural classes, a stratum called "manager landlord" in the landlord class. In the other situation, which was more common, the landlord leased his land to the peasants, that is, to his tenants. He did not engage in any management at all, just collecting rent without lifting a finger. In this case, owner and manager were not the same people.

Under capitalism too, there are capitalists who also manage, that is, functioning capitalists, and interest-bearing capitalists who provide the capital but are not involved in management. These two kinds of capitalists were discussed at great length by Marx in Chapter 23, "Interest and Enterprise Owner Income," and Chapter 27, "The Role of Credit in Capitalist Production," in Volume 3 of "Das Kapital." Marx said, "The functioning capitalist derives his claim [right] to profits of enterprise, hence the profit of enterprise itself, not from his ownership [right] of capital, but from the function of capital, as distinct from the definite form in which it is inert property."¹³ He also wrote, "To represent functioning capital is not a sinecure, like representing interest-bearing capital. On the basis of capitalist production, the capitalist directs the process of production and circulation. Exploiting productive labor entails exertion, whether he exploits it himself or has it exploited by someone else on his behalf."¹⁴ I have taken out the three words "right" (enclosed in brackets here, for the reason mentioned above.) Also, I think "drawing a salary for holding a sinecure" is a mistranslation. Since an interest-bearing capitalist does not draw a salary, a better alternative would be "making a lot of money without exerting any effort."

Before the war against Japanese aggression, a distinction was made in the Chinese countryside between field top right and field bottom right. The person who owned the field bottom right was entitled to collect rent only on the basis of his ownership of that right, while the person who owned the field top right could use the piece of land in perpetuity but must pay rent to the field bottom right owner. The field top right was derived from but also transcended permanent tenant right because the field top right, like the field bottom right, could be bought and sold, leased, given away as a gift, or transferred in some other manner. A person who had total ownership to a piece of land could use the land, lease it, or sell it. In the process of selling it, he realized his ownership economically. But after he had sold it, he would lose what he owned. If he leased it, he could collect rent and re-take the land when the lease ran out. After he sold the field top right, he could never use the land again. Nor could he sell the field top right a second time. Thus his ownership of the land at that point would become incomplete. As for the person who owned the field top right, he could sub-lease it if he chose not to manage it himself. That is, he could sublease the land and collect rent while keeping his field top right. In this he was similar to the owner of the field bottom right. If the rent he collected from the

entity who subleased the land to which he held the field top right exceeded the rent he paid to the owner of the field bottom right, then he also derived economic benefit from his ownership of the field top right, without engaging in management himself. From this we can see that he was also entitled to part of the right of ownership of this piece of land—the right to benefit from subleasing it.

The separation between the field top right and the field bottom right is a good illustration of these concepts: "appropriation through ownership," "appropriation through management," "owner of ownership right," and "owner of management right." It may also somehow prove inspiring as we analyze ownership right and management right.

39. Now let us discuss ownership and management in a socialist society. There are many forms of socialist ownership in a socialist society, one of them being socialist state ownership, which, in turn, comes in many varieties. Here we limit our inquiry to ownership and management as they relate to existing state enterprises and state management of those enterprises.

40. Separating ownership right from management right, that is, the so-called "separation of the two rights," is one guiding idea put forward in the reform of existing state enterprises and the reform of state management of those enterprises. But the idea of "separating the two rights" is a fuzzy one. Two different kinds of reform can be carried out in its name. In the first scenario, we reform in the spirit of the "separation of the two rights" while insisting that no change be made to socialist state ownership. In this scenario, the "separation" would only change management somewhat, which is now divided among the enterprise, sectorial and local managerial departments, and the central government, while state ownership in its present form would continue to be recognized and protected under the law completely. In the second scenario, the maintenance of socialist state ownership is not a prerequisite. In this situation, the "separation of the two rights" may lead to the weakening to a certain extent of socialist state ownership in state enterprises and of state management of these enterprises and the formation of new forms of socialist ownership.

Sun Zhifang [1327 3112 2455] on the Need To Stress Management Under Socialism

Sun Zhifang was the first Chinese economist to write about ownership and management under socialism. In a research report written in 1961, he noted that "questions of finance and economics were simply questions of the management right, or what legal scholars call questions of appropriation, use, and control."¹⁵ How insightful! In his opinion, "under ownership by the whole people, appropriation, use, and control are one thing, and ownership another thing. State organizations essentially exercise the right to appropriate, use, and control state

properties permanently given to them based on the objectives of their activities and the uses to which the properties are put. The owner of these properties, on the other hand, is the state."¹⁶

While this passage does not explain concepts like "ownership" and "right to appropriate, use, and control" clearly, its overall meaning is obvious, namely that he believed the separation of ownership from management was, or rather should have been, a fact as early as then and that separation was totally consistent with socialist state ownership. Not everybody today agrees with his viewpoint. Many people nowadays contend that the "separation of ownership from management" has not been accomplished in socialist countries and remains a goal for which we strive. But he did set people thinking by raising this point.

He went on to say that when ownership reaches the ultimate, that is, (when it reaches the stage of ownership by the whole people and cannot become larger or more public,) the question of management right becomes the most important research topic in political economy. This viewpoint is highly noteworthy. If we say that changes in management right have had and are having a significant impact on the development of production relations under capitalism, then the same is even more true under socialism. It was indeed very farsighted of Sun Zhifang to suggest that changes in management right would play an ever larger role in the development of socialist relations of production.

41. Reforms in state enterprises and state management of such enterprises in the days before leasing and contracting largely belonged to the first scenario. Tax reforms (the collection of capital tax, land tax, and regulatory tax, for instance, some of which were never put into effect while others were implemented for a time only to be discontinued after leasing and the contracted management responsibility system came into existence) in essence strengthened socialist state ownership. Reducing the scope of command planning, expanding the reach of guidance planning, and replacing many direct controls with indirect controls in the form of economic levers—all this left socialist state ownership intact. As for macro-economic control so much emphasized after 1985, that only served to reinforce socialist state ownership and state centralization. If this is what reform is all about, socialist state ownership itself would remain unaffected despite the lip service we pay to deregulation, expanding enterprise decision-making power, and separating ownership from management, etc.

42. In pre-leasing and pre-contracting days, these were often the measures introduced to expand enterprise management decision-making power: government and sectorial and local managerial departments were not only the owner of the means of production of an enterprise, but they also held substantial management power. The scope of operations of an enterprise, its business policies, its production, supply, and marketing plan, along with

the tasks it must accomplish and the distribution of profits, are still largely decided by the state and managerial departments. So-called expanding the enterprise's decision-making power meant no more than giving enterprise a little more leeway in deciding numbers. Before leasing and the contracted management responsibility system were introduced, the state and management departments still kept enterprises on a tight leash where labor and personnel matters were concerned. For example, an enterprise's total payroll was still controlled by the state. Of course, the state only fixed the nation's total wages, the rest to be determined level after level all the way down to the grassroots. The result of this particular method of fixing total wages is that no matter how good a job the work-force of an enterprise does, and no matter how good their performance is, their wages would not go up. As for the individual worker who does an exceptionally good job, he can only draw a larger share of the total wage pool. And he is able to do so because some other worker who may have put in a better performance than before takes home a little less. Put it differently, the first worker is paid more at the expense of some other worker. Naturally this kind of distribution "principle" does nothing to fire worker initiative and creativity. Moreover, since the overall wage level is quite low, bonuses cannot but become a kind of supplementary wage to be given out more or less in a spirit of egalitarianism. Bonuses handed out in this manner neither serve to penalize those workers who do not observe work discipline or fulfill their quotas nor succeed in stimulating worker initiative significantly. This example shows that as long as this piece of power remains beyond an enterprise's grasp, the state and managerial departments retain formidable management power. This explains why, after leasing and the contracted management responsibility system were introduced, enterprise workers regarded as a kind of liberation the ability of the enterprise to raise total payroll in case of a rising profit.

Much of what the government and departments in charge do falls into the field of management. Through such actions, the departments exercise considerable managerial power. As originally understood, socialist state ownership is a system under which government and state departments wield management power. Thus I think this kind of socialist state ownership can be called total (or pure) socialist state ownership. In this kind of socialist state ownership, the state (its representative-in-chief is the government, while its actual executors are sectorial and local agencies) directly takes part in running the enterprise. (Its managerial functions are divided among the government and sectorial and local managerial departments.)

43. Things, however, are different after leasing and the contracted management responsibility system came into existence. Leasing and the contracted management responsibility system are reform measures that touch upon ownership.

44. These are the similarities between the two forms of management responsibility system—leasing and contracting. First, after the introduction of the two management responsibility systems, the relationship between enterprises, on the one hand, and government and sectorial and local departments, on the other, which was formerly a subordinate one between higher and lower levels, became a contractual one arrived at after consultations between the enterprise and the state. The government and departments in charge require that the enterprise accomplish specific production and construction tasks and submit to them a certain sum or a certain percentage of total profits as "profit taxes." The contractor or lessee accepts this requirement and provides economic guarantees that such tasks would be accomplished. Moreover, the government and departments in charge guarantee the lessee or contractor that after the lessee or contractor satisfies this requirement, the government and departments in charge will not demand additional profit taxes from them, the remainder of which will be at the disposal of the lessee or contractor. After this agreement between the enterprise and the government and departments in charge is firmed up in the form of a contract, the two sides have obtained rights and assumed obligations legally.

Second, both the relationship of a lessee to government organizations and that of a contractor to government organizations can be summed up by the word "all-inclusive." This means that their relationship is largely a package deal, indivisible. All that can be included is likely to have been included. For instance, money to be turned over to the state is usually not further subdivided into different tax categories (although theoretically it is possible to figure out what constitutes that which the enterprise submits to the state.) This greatly simplifies the relationship between the enterprise and departments in charge and gives the enterprise considerable room to maneuver as it sees fit.

Third, neither the lessee nor the contractor has its own means of production. Both use means of production belonging to the state. (I am referring to the situation when the two systems of management responsibility were first introduced.) Neither is a owner of the enterprise's means of production, bringing out very sharply the distinction between ownership and management.

45. There are also major differences between the two systems. Under the leasing management responsibility system, the lessee has greater management power and more independence. He can totally ignore orders from the higher levels. We can say that there are no longer any higher levels. As a result, his economic responsibilities and legal liabilities are correspondingly heavier, to the extent that he must be prepared to give up all his assets and future work income as compensation in case of failure. If the leasing contract is drawn up along these lines, it can be said that his liabilities are limitless. In the

contracted management responsibility system, the contractor's management power and independence are correspondingly less. The government and departments in charge continue to exercise a certain power over him. As a result, his economic responsibilities and legal liabilities are also less extensive. If the enterprise fails, all he stands to lose as the leader of a socialist state enterprise is only his labor income as compensation. Thus his legal liabilities are limited. (In this context, "limited" and "unlimited" differ from the philosophical concepts of "limited" and "limitless" because both of them are actually limited. They are also different from "limited" and "unlimited" as used in reference to a share-holding company because "limited" and "unlimited" in the latter case have special meanings under company law.) In addition, the contractor is also motivated to do a good job by his concern for his reputation and future.

46. What kind of socialist ownership are leasing and the contracted management responsibility system? What happens to ownership and management rights under these systems? How has socialist state ownership changed under them? To answer these questions, we must first analyze the actual leasing or contracted management responsibility contracts themselves. Only by analyzing and reviewing a large number of such contracts can we determine the changes brought about by leasing and the contracted management responsibility system in a comprehensive and accurate way.

We must fully affirm the achievements of the two kinds of management responsibility system and synthesize them theoretically. At the same time, we must analyze in depth the problems that arise in their wake.

47. Under the leasing or contracted management responsibility contract, if the lessee or contractor can neither alter the enterprise's business direction and the varieties and specifications of its products nor increase its total payroll, among other things, then the government and sectorial or local departments in charge have not entirely given up their original management power. What they did is to demand once and for all at the time the contract was signed that the lessee or contractor recognized the former's existing position as the enterprise's operator and that the lessee or contractor agreed to run the business in accordance with the wishes of the previous operator, that is, the government and departments in charge, in many—but not all—things during the duration of the contract. These requirements were written into the contract to be honored by both sides.

This situation shows that after the leasing or contracted management responsibility contract is signed, the government and sectorial and local departments in charge retain "previous," "potential," and "prospective" management power. So-called "previous" management power refers to that power which previously belonged to the government and departments in charge and which was retained by them under the contract. Since we cannot say that such power is totally null and void during

the contract period, it becomes a kind of "potential" power at the disposal of the government and the department in charge. The government and department in charge also wield a kind of "prospective" power. This power is the power to manage means of production which will be reverted to the government and sectorial and local departments in charge after the contract expires.

48. If the leasing or contracted management responsibility contract requires only that the lessee or contractor pay a specified sum of money (whatever it be called—rent, profit, or tax) to the government and department in charge in return for the use of all the enterprise's means of production, then the government and departments in charge have no such thing as "previous" or "potential" management power, only "prospective" management power, which means that they can run the enterprise again after the contract expires and the enterprise reverts to government control.

49. Both scenarios described above are extreme situations. The bulk of contractual relationships under leasing and the contracted management responsibility system fall between the two extreme alternatives. They are complex and a detailed analysis is necessary before we can sort out matters relating to management and ownership rights.

50. In brief, the pure direct form of socialist state ownership that existed in the past has been weakened to various degrees after the implementation of leasing and the contracted management responsibility system. The enterprise-state relationship, formerly one of subordination, has now become a contractual relationship; the lessee or contractor and the government and departments in charge are all equal before the contract. During the contract period, the government and sectorial or local departments in charge cannot intervene in the enterprise at will as they did in the past. All this clearly bears testimony to the fact that the total and pure form of socialist state ownership has been weakened.

(This is part of "Thoughts on the Destiny Of State Ownership And The Future Of Enterprise Ownership In Reform," which I am working on. The destiny of state ownership in reform also involves these questions: Will it be replaced by other forms of ownership? If so, what forms? These will be covered in another section of the above-mentioned paper.)

Footnotes

1. Engels, "Speech in Ai Bei Fei Te, in "Collected Works Of Marx and Engels," Volume 2, p 615.

2. Marx, "Critique of the Gotha Program," in "Selected Works of Marx and Engels," Volume 3, p 20.

3. Marx and Engels, "The Manifesto of the Communist Party," in "Selected Works of Marx and Engels," Volume 1, p 272.

4. "Anti-Duhring," in "Selected Work of Marx and Engels," Volume 3, p 320.

5. Marx and Engels, "Manifesto of the Communist Party," in "Selected Works of Marx and Engels," Volume 1, p 272.

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7. Zhao Ziyang, "Advancing on the Road of Socialism With Chinese Characteristics," in "Collected Documents of the 13th National Congress of the CPC," Renmin Chubanshe, 1987 edition, pp 12-13.

8. Zhao Ziyang, Ibid.

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11. Engels, "Anti-Duhring," in "Selected Works of Marx and Engels," Volume 3, p 170.

12. Marx and Engels, "German Ideology," in "The Selected Works of Marx and Engels," Volume 1, p 85.

13. Marx, "Das Kapital," Volume 3, p 426.

14. Ibid, p 427.

15. Sun Zhifang, "Financial and Economic Issues Within the State Economy," in "Certain Theoretical Issues about the Socialist Economy." Renmin Chubanshe, 1979 edition, p 139.

16. Sun Zhifang, Ibid.

12581

Definition of Ownership, Management

40060323b Beijing ZHONGGUO JINGJI TIZHI
GAIGE [CHINA ECONOMIC SYSTEM REFORM] in
Chinese No 4, 23 Apr 88 p 13, 39

[Text]

Ownership

A kind of property right. It refers to the right of the owner to possess and use specified material goods in accordance with the law and his entitlement to its benefits and penalties free from others' interference. The

nature of ownership is determined by the form of ownership of the means of production. It reflects and affirms ownership relations among people at a particular point in time and gives the kind of relations the attribute of a legal relationship so that it comes under the protection of the coercive power of the state.

The object of ownership is a substance. The subject of ownership is fixed. The owner can realize his right without assistance from others. The subject obligation, on the other hand, is not fixed. All individuals other than the owner have the obligation not to interfere in the owner's exercise of his right. Ownership also includes the right to go after the property. Generally speaking, the owner has the right to go after the property and assert his right no matter whose hands it has fallen into.

Management

Article 82 of the General Rules of the Chinese Civil Law stipulates that "state enterprises shall, in accordance with the law and with legal protection, enjoy the right to manage and operate properties entrusted to their management by the state." The details of this management right are spelled out in Article 2 of the recently promulgated "The Law of the People's Republic of China on State Industrial Enterprises." "State enterprises shall have the right to own, use, and condemn properties entrusted to their operation and management by the state." The separation of ownership from management is an important principle of the reform of enterprise operational mechanisms. The state confers on the enterprise complete power to manage state properties, while retaining control over their ultimate disposal. How to manage and develop the properties, how to use and transfer them, and how enterprises can buy stocks, invest in, and merge with one another—all this shall be decided by enterprises on their own. Only by separating ownership from management can state enterprises become independent commodity producers. The Enterprise Law says, "Based on the decision of the department in charge, the enterprise may adopt contracting, leasing, and other forms of management responsibility," thereby identifying the actual ways in which ownership can be separated from management.

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Contract Management Responsibility System as Expediter of Structural Reform

40060323a Beijing ZHONGGUO JINGJI TIZHI
GAIGE [CHINA ECONOMIC SYSTEM REFORM] in
Chinese No 4, 23 Apr 88 pp 25-27

[Article by Sun Zhixin [1327 1807 2450]: "The Contract Management Responsibility System Plays A Vital Part in Economic Structural Reform"]

[Text]

The Development and Comparison of the Contract Management Responsibility System

As an operational and management system, the contract management responsibility system has a long history. Back in the 1950's in the early days of the cooperative movement and in the 3 difficult years from 1959 to 1961, there were the fixing of farm output quotas for each household, job contracting for each household, and the system of "three forms of contracting and one reward" (undertaking to perform a piece of work within a set time and cost limit, according to specifications, and with a fixed output. If output exceeded the target, the contractor would be rewarded. If output fell short, the contractor must pay compensation.) In addition, small-scale work contracting and the determination of wages according to quotas were quite commonplace. These forms of contract management responsibility spurred agricultural production at the time but came under unfair criticism later.

After the 3d Plenum of the 11th CPC Central Committee, China's reform had its first breakthrough in the countryside. And the thrust of rural reform was the family output-related system of contracted responsibility. It gave vast numbers of peasants an opportunity to break new ground, be creative, and put their individual talents to work. It closely integrated the economic interests of broad ranks of peasants with the final products of their labor, creating an internal mechanism linking responsibilities, rights, and interests. This strategic reform played an indelible role in advancing great historic changes in China's countryside and driving the development of a commodity economy.

Can the contract management responsibility system be introduced into the urban economic structural system? How? While there were differences of opinion from the start, and despite the three ups and downs in enterprise reform, the door to reform had swung wide open and it was a historical trend for the contract management responsibility system to enter the urban economy. Since late 1986, particularly since 1987, contracting in all forms and shapes, especially the contract management responsibility system, has sprung up like mushrooms and been widely adopted, with remarkable economic results. Finally, after many twists and turns, we found an effective way to separate ownership from management and vitalize large and medium-sized state enterprises. Through constant consolidation and perfection, the contract management responsibility system has not only incorporated the "rational kernel" of the output-related system of contracted responsibility, an internal mechanism for combining responsibilities, rights, and interests, but also gradually established its own characteristics, principles, and main substance, enriching and furthering the theory and practice of enterprise reform.

Although the contract management responsibility system has its roots in the contract management system in the rural areas, it has far outgrown its original limits.

This is true not only because of the substantial differences between their respective production methods, but also because of the marked dissimilarities between their focus of problem solving.

Many rural areas in China remain in a semi-self-sufficient natural-economy state at the moment. In those areas the commodity economy is just beginning and is developing in a highly uneven way. The extent of agricultural mechanization is limited and the level of large-scale production is low. Therefore, variants on the output-related system of contracted responsibility, such as the fixing of farm output quotas for each household or the practice of a household undertaking to perform a job within a set time according to specifications, are more suited to this mode of production. On the one hand, farmland is contracted out to the households as a way of firing peasants' initiative by giving them actual personal ownership of means of production and the fruits of labor. In this way, the practice of "eating from the common rice pot" was brought to an end and the distribution relationship between the collective and individual was resolved. On the other hand, the writing of an economic contract to ensure that a task will be done simplifies the relationship between the state, the collective, and the individual. In other words, the peasant "ensures that the state gets its contracted share, keeps enough for the collective, and claims whatever remains as his own."

State enterprises practice the contract management responsibility system on the basis of socialized large-scale production and modern management. Through the contracting mechanism, an enterprise can expedite the reform of internal operating mechanisms, strengthen production management, and raise its economic returns. Moreover, the system is well suited to the economic characteristics of the primary stage of socialism in China. It distributes responsibilities, rights, and interests properly between the state and the enterprise by holding the enterprise accountable for submitting profits to the state and for technological transformation. At a time when the market system remains imperfect and external conditions vary significantly, the contract management responsibility system succeeds in allocating responsibilities, rights, and interests between the state and enterprise fairly equitably. That is how the system acquires its dual attributes.

The Dual Attributes of the Contract Management Responsibility System

The contract management responsibility system is both a management and operational system and a way to define the relationship between the state and the enterprise. Hence its dual attributes. As a management and operational system, it is related to production and is therefore continuous and lasting. As a way of defining the relationship between the state and the enterprise, it is substitutive and transitional.

In accordance with the overall requirements of developing a socialist commodity economy, the relationship between state and enterprises in the future will mainly be concerned with taxes and properties. That is, as the general manager of society, the state must levy taxes on all enterprises at a uniform tax rate without exception. As the owner of the assets of the enterprise, the state must take a cut of its profits. As the unified socialist market gradually takes shape and is perfected, as the enterprise gradually develops a capacity to operate independently, and as the state develops its macroeconomic regulating functions, the relationship between the state and the enterprise should be standardized, not something that has to be worked out on a case-by-case basis through negotiations and the writing of a contract. The contract management responsibility is the inevitable product of this transition from the old to the new, exactly the sort of thing absent from market mechanisms. Its function is to replace the market and certain functions of the macroeconomy to an extent. Consequently, the purpose of developing and perfecting the contract management responsibility system is to speed up the transition from the old to the new. It will not impede the furthering of reform as some comrades have asserted.

Provided it keeps up with the development of productive forces and the optimization of the production organizational structure by improving, amplifying, enriching, and renewing itself continuously, the contract management responsibility system, as an operational and management system, will certainly have a far-reaching effect on perfecting enterprise operational mechanisms, strengthening enterprise management, and improving enterprise quality all round, and becomes an important part of modern management science with Chinese characteristics.

It must be pointed out that the dual attributes of the contract management responsibility system are not two independent facets, unrelated to each other. By correctly handling the state-enterprise relations, it will help the enterprise become an independent operator responsible for its own profits and losses, thereby furthering internal enterprise reform. By perfecting the enterprise's operational mechanisms, it can enhance the enterprise's ability to adapt to the market and vitalize itself. The two attributes interact with and energize each other, both permeating enterprise reform.

The Evolutionary Trends of the Contract Management Responsibility System

If we take the system, with its dual attributes, as the starting point in our thinking about enterprise reform, we may come up with a relatively practical approach and understand its evolutionary trends better.

The contract management responsibility system is a way of delineating the responsibilities, rights, and interests of the state and the enterprise. We must lay down regulations concerning property rights and reform the tax

system if the contract management responsibility system is to play an effective role as a "central axle" in the transition from the old to the new and be extensively and successfully applied in the practice of reform.

Facts prove that if property rights relations are fuzzy and chaotic, it will be very difficult to avoid the tendency of enterprise workers to maximize income and the strong urge of the localities and the enterprises to compete for investment and loans from the central government. It will also be very hard to restrain the operators. In fact, clearly defining property rights relations and strengthening the position of the operators go hand in hand. After state regulatory and control power is separated from ownership, we should establish machinery at different levels to manage and operate state-owned assets and draw up clear property rights regulations to provide a legal basis for the full utilization of the abilities of the operators. Some people suspect that the establishment of the necessary state asset management machinery will only reinforce the administrative subordination of the enterprise vis-a-vis the state. Also involved is the issue of property rights regulations. If we have comprehensive property rights regulations suited to China's national circumstances that strictly define the responsibilities, rights, and interests of the state and the enterprise and give the enterprise full legal protection in the exercise of its rights as a legal person, that situation will not arise. At present, state asset management organs can be found in many countries in the world. West Germany, for instance, has its federal industrial property office and Italy has its property management bureau. In neither country has the existence of such an office interfered with the enterprise's exercise of its rights.

Nowadays enterprises essentially contract to turn profits over to the state, including a fixed amount of profits, a progressively increasing amount, a share of profits beyond a base figure, or a retained percentage on loss reduction. This conflicts with the second phase of the plan to replace profits with taxes, currently under way. It must be recognized that the contract management responsibility system is an attempt to find a new distribution balancing point between the state and the enterprise through the regulatory mechanism of profit contracting, at a time when market mechanisms are less than perfect, the price system irrational, and reforms uncoordinated. However, as reform becomes more far-reaching and production grows, it will be an inevitable trend in reform to separate profits from taxes, lower income tax rates, replace before-tax loan repayment with after-tax loan repayment, and gradually divorce the ownership and use of taxes, which are compulsory, from that of profits, which are returns on enterprise assets, in order to bring about a change in the identity of the major investor. If we make this the breakthrough to spur reforms in the investment system, material supply system, banking system, and the government economic management machinery, then it will effectively pave the way for the establishment of state-enterprise relations under the new system.

In the course of developing the contract management responsibility system, we have accumulated much useful experience in perfecting enterprise operations and management, particularly its operational mechanisms. For instance, through open bidding and recruitment, we have introduced the competitive mechanism into enterprise leadership reform. Through the introduction of the piece rate wage and the quota wage, we have reformed the enterprise wage and distribution system. Through experiments in "full load work rules," "labor combination system," and "within-factory bank," we have strengthened enterprise management. All this has laid a solid foundation for the development of enterprise management with Chinese characteristics. Taking the situation as a whole, however, there are two issues which have yet to be addressed. First, as an operational management system, the contract management responsibility system must reflect the objective requirements of socialized large-scale production and accommodate the economic and technical characteristics of production in different industries and enterprises. We should base our perfection of the system on an understanding of the objective laws of production, safety, operations, and management and must not seek to impose one universal model. Second, the implementation of the contract management responsibility system must be based on the optimization of the enterprise structure. The adjustment and transformation of the industrial structure lies at the heart of economic development. The optimization of the industrial structure depends on the optimization of the enterprise structure. The latter, in turn, depends on the effective circulation and rational allocation and distribution of key resources. In the long run, therefore, adherence to individual enterprise contracting benefits neither the optimization of the enterprise structure nor the enterprise's own long-term development. In contrast, the transfer of property rights and management rights, the share-holding system, horizontal economic associations, and enterprise incorporation, which have appeared recently, provide us with new solutions to the problem.

To sum up, it is not without significance to clarify the dual attributes of the contract management responsibility system even as we develop and perfect it. It gives us a scientific understanding of its historical position and evolutionary trends at the present stage and helps us incorporate it into economic structural reform as a whole and use it to expedite the transition from the old to the new.

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PROVINCIAL

Xinjiang's Economic Development

40060310 Urumqi XINJIANG RIBAO in Chinese
28 Apr 88 p 2

[Article by Zhang Jianjun [1728 1696 6511] and Wang Rong [3769 2051]: "Seize the Opportunity and Meet the Challenge"]

[Text] The strategy for the economic development of the coastal regions has drawn nationwide attention. How should Xinjiang seize this good opportunity and take full

advantage of its frontier position to find its way into the international market, participate in international exchange and competition, and speed up the region's economic development with leadership and in a planned and systematic way? This is an extremely pressing and completely new task.

Grim Reality: Xinjiang Faces Challenge

If we fail to react quickly to the development of the coastal regions and continue to drag our feet, our abundant natural resources, the pillar of Xinjiang's economic development, will be diminished in importance; our financial problems will get worse; competent people and money will drift away from the northwest to the southeast, and the popular interest in the great northwest will cool down and even disappear; and Xinjiang will lag farther and farther behind the rest of the country and the coastal areas.

The central government's strategy for the coastal regions' economic development and active participation in global economic activities is both an opportunity and challenge for Xinjiang to speed up its own development. If we react slowly, make the wrong moves, and let the good opportunity slip away, we will suffer irreparable losses.

1. Xinjiang's abundant natural resources, the pillar of its economy, will gradually diminish in importance. Xinjiang has always been proud of its abundant natural resources. However, the policy for the coastal regions to import large quantities of raw and semifinished materials and export finished goods will increase supplies of raw and semifinished materials from abroad and reduce demands for the same from Xinjiang. Moreover, Xinjiang's distance is an unfavorable factor which further diminishes the value of its raw and semifinished materials. This changing situation is certainly going to affect the growth in raw and semifinished materials production and hamper Xinjiang's effort to turn its abundant natural resources into economic strength.

2. Xinjiang's products will gradually lose their markets. In the past few years, many Xinjiang products have been driven out of international and domestic markets. The problem of slow-selling goods is serious. New products are slow in developing. If, in the current race for the domestic markets vacated by the coastal regions, we allow ourselves to fall behind other provinces, municipalities, and autonomous regions, some of our industries in Xinjiang will face decline and a bleak future.

3. Our preferential policies will gradually lose their appeal. To develop an export-oriented economy, the coastal regions will certainly adopt policies more attractive than other regions'. If we fail to improve and adjust our present policies in good time, it is possible that competent people and capital will drift away from the northwest to the southeast.

4. Our financial difficulties will increase. Xinjiang has a long-standing problem of budget shortfalls. Even though the situation has improved somewhat in the past few years, Xinjiang is still just about 30 percent self-sufficient financially, which seriously hampers economic development. With the changing direction of capital flow and the reduction of state subsidies, it will become more difficult for Xinjiang to raise enough funds for development. Xinjiang will continue to require a shot in the arm from time to time, and will not be able to extricate itself from the vicious cycle.

5. Xinjiang will lag farther and farther behind the rest of the country and the coastal regions. In the past few years, some major economic indicators in Xinjiang have fallen farther below the average national level. With the rapid development of the coastal regions, the widening gap between the east and the west will have a serious impact on Xinjiang.

How to Deal With the Situation

The key to seizing the opportunity lies in achieving an ideological and conceptual breakthrough at the leadership level as quickly as possible, so that our leaders will apply the preferential policies accorded Xinjiang by the central government effectively and flexibly, lose no time in formulating policies on structuring and organizing production in the light of Xinjiang's actual conditions, adopt a "two-way development" strategy, and intensify and speed up the region's reforms.

Several years ago, the strong popular interest in the great northwest aroused by the international craze about the "silk road" presented a rare opportunity for the development of Xinjiang. It is too bad that we failed to see its importance and did not take advantage of the many favorable conditions to bring in qualified people, capital, and technology from other regions and abroad to speed up Xinjiang's economic development and its opening to the outside world. If we let such a good opportunity slip again this time, we'll be repeating our past mistake, which we must not let happen. The following are things that must be done.

1. An ideological and conceptual breakthrough must be achieved at the leadership level as quickly as possible.

Although Xinjiang's economic problems and lack of progress in development are caused by many factors, one major cause is the failure of our leaders to emancipate their minds. The preferential policies adopted by the central government for Xinjiang have not been applied flexibly in the light of the actual conditions. A rather large number of our leaders still cling to the ideas of a product economy and continue to use the methods of a product economy to guide and manage the commodity economy. They are content with the conventional ways of doing things and lack the spirit to open up new ground and blaze new trails. This is the greatest obstacle to

Xinjiang's economic development. Therefore, the changing of ideas and concepts among our leaders is the most important condition for Xinjiang to open wider to the outside world.

2. Policies for structuring and organizing production in the light of Xinjiang's actual conditions must be formulated in a timely fashion.

The strategy of the coastal regions' economic development will inevitably be accompanied by large scale readjustments of the production structure. Therefore, to narrow the gap between Xinjiang and the coastal regions, we must seize the opportunity and formulate policies for structuring and organizing production in the light of Xinjiang's actual conditions.

In the past few years, Xinjiang's production structure has been improved somewhat, but the historically irrational production structure has not changed much as a whole mainly because there is no production policy based on the actual conditions in the region. Xinjiang's production policies should be linked to international economic activities and trade and designed to foster the development of the "three high" industries and leading industrial groups along those lines, rationalize the production structure with fine processing industries playing a dominating role, and ultimately bring about Xinjiang's economic take-off.

3. We should adopt a "two-way development" strategy and open up to the outside world in all directions.

On the one hand, we should make full use of the coastal regions' preferential policies and favorable conditions to bring in capital and technology. Xinjiang has a poor foundation to start with and is backward in management standard. It is impossible for Xinjiang to take off economically in a short time. Besides, to compete in the international market on its own, it will have to pay a high price. Therefore, Xinjiang should establish lateral economic ties with the coastal regions, to help supply each other's needs and shorten the process for Xinjiang to get into the international market.

On the other hand, Xinjiang should take advantage of its inland frontier position and vigorously develop economic cooperation and trade with areas to its west. Xinjiang borders on five countries and is not far from the Middle East countries on the Persian Gulf, which are close to Xinjiang in natural conditions and social customs, an advantage no other region of China can match. The construction of the Beijing Railway should be quickened to become part of an international through transport line and open up a new passageway to the west so that Xinjiang will lead the way in exporting to the western markets and expand its trade area and influence.

For the "two-way development" strategy to succeed, it is urgently necessary to readjust and supplement Xinjiang's policies on opening to the outside world and to effectively improve the investment climate for added appeal.

4. The pace of reform must be quickened.

The reforms must be quickened and intensified, for they hold the key to opening to the outside world and will guarantee its success. In the past few years, Xinjiang has moved slowly and fallen behind the rest of the country in carrying out reforms. The reasons merit serious reflections. At present, attention should be focused on reforming the enterprise operating mechanism. We should not rely mainly on cheap labor and raw materials to attract domestic and foreign capital and technology, but should increase the enterprises' ability to adapt to market changes at home and abroad and encourage the development of export-oriented enterprises. The foreign trade system reform plan has been published. We should pay attention to its implementation and set up a foreign trade system which follows the laws governing the development of a commodity economy and functions according to international practices as soon as possible.

5. Our relevant research forces should be brought together to follow closely and study the implementation of the coastal economic development strategy and chart our own course of actions accordingly.

There are many economic research institutes in Xinjiang, and research personnel are widely scattered. They have failed to provide authoritative and scientific consulting services for the leading organs to make decisions. The developing situation calls for proper readjustments. It is necessary to select research personnel from relevant organizations to form a special team to study matters of global economic activities and export-oriented economies, closely follow the trends of coastal economic development, carefully analyze situations at home and abroad which have a bearing on Xinjiang, find out how they can benefit or hurt Xinjiang, devise ways and means to make use of or cope with them, and propose appropriate policies and measures in the light of Xinjiang's actual conditions.

12802

FOREIGN TRADE, INVESTMENT

PRC Financial Experts on New Ways To Encourage Foreign Investment

40060300a Beijing LIAOWANG OVERSEAS EDITION
in Chinese No 19, 9 May 88 pp 13-14

[Article by Li Dahong [2621 1129 1347] and Wang Peiyu [3769 0160 3768]: "China Deliberates New Ways To Encourage Foreign Investment"]

[Text] China in recent years has essentially solved the balance of foreign exchange problem of the "three kinds of partially or wholly foreign-owned enterprises." In

addition, many of these enterprises enjoy a surplus of foreign exchange, but the question is how to improve the foreign investment climate and attract more foreign capital by institutionalizing investment and providing legal protection. Some of the financial experts who are about to go to Hong Kong to attend the China Investment Climate Working Conference recently introduced these reporters to some new measures and new suppositions which are now being deliberated in China by the departments charged with foreign investment matters.

A. Strengthen Legislation and Lighten the Tax Burden

Accounting expert Yang Jiwan [2799 4764 3834], advisor to the Accounting Systems Department of the Ministry of Finance, and concurrently permanent vice chairman of the Chinese Accounting Society, said the principal measures to be adopted by the relevant departments in China to improve the foreign investment environment include:

1. Strengthening Legislation Related to External Affairs. He said that Li Daoran [2621 6670 3544], an official of the Legislative Revision Bureau of the Ministry of Foreign Economic Relations and Trade (MOFERT), will provide a more detailed introduction to the problem at the Hong Kong conference. Work in this area reportedly will proceed on two fronts: on the one hand, we will pay special attention to drafting and implementing new laws and regulations; for example, the "PRC Sino-Foreign Contractual Joint Venture Law" was passed by the First Session of the Seventh National People's Congress, the "Implementation Provisions of the Foreign Invested Enterprise Law" has been drafted, and the drafting of laws, regulations, and policies dealing with investment, foreign exchange, taxation, and financial accounting matters is being expedited. On the other hand, in response to the requirements of the coastal economic development strategy, we must seriously sort out, abolish, revise, or reformulate economic laws and regulations currently in force relating to external affairs. We are now studying whether or not we can, by referencing international accounting standards as much as possible, formulate a unified "foreign invested enterprise accounting management system." In addition, we will also permit foreign invested enterprises to formulate accounting systems tailored to themselves, based on applicable provisions of the Ministry of Finance.

2. Lightening the Tax Burden of Foreign Invested Enterprises. The state is preparing to appropriately lower interest rates for foreign invested enterprises, and is working hard to submit this year for consideration by the National People's Congress Standing Committee the unified "Foreign Invested Enterprise Income Tax Law" it has drafted. In addition, it is doing what is necessary to unify the domestic and foreign enterprise tax laws. The state will effect a set of circulation tax laws unifying the industrial and commercial integrated tax involving the foreign enterprise commodity circulation chain, and the product, value added, and operation taxes affecting

domestic enterprises. Yang said this will be the direction that reform and development of China's tax system will take. He disclosed that the deputy bureau chief of the General Taxation Bureau of the Ministry of Finance, Niu Licheng [3662 4539 2052], will deliver a speech at the Hong Kong conference on how experts can improve the tax system as it applies to external affairs.

3. Encouraging Foreign Commercial Interests To Directly Manage Enterprises, Respecting Foreign Management Rights. Not only can wholly foreign-owned enterprises be handled in this manner, Sino-foreign joint ventures and Sino-foreign contractual joint ventures also should be handled this way within a given time frame.

4. Accelerating and Intensifying Foreign Trade System Reform. The State Council has printed and distributed its "Questions Regarding Reform of the Foreign Trade System." Beginning this year, the whole country will pursue a comprehensive policy of contracting foreign trade management responsibility, effect a program of "assuming sole responsibility for profits and losses, expanding management scope, coordinating industry and trade, and promoting the agent system," gear foreign trade enterprises and enterprises which produce export products directly to the requirements of the international market, and seek to develop through market competition. Deepening reform of the foreign trade system will go a long way toward improving the investment environment.

5. Other Policy Measures. For example, expand the examination and approval authority of the coastal area so as to attract direct foreign investment by allowing projects in Liaoning, Hebei, Shandong, Jiangsu, Zhejiang, and Guangxi with total investment under \$30 million to carry out examination and approval activities themselves; simplify border entry and exit procedures for domestic and foreign commercial people.

B. How To Improve the Investment Climate

Jing Shuping [4842 0647 1627], China International Consultative Company board chairman, who will attend the Hong Kong conference said, "Investment in China is compelling primarily because of cheap labor, low land-use fees, large markets, and relatively abundant resources. Realistically, however, we must understand that all these advantages have inherent drawbacks. To a certain extent, these drawbacks make investment in China less attractive."

Jing Shuping is a well-known Chinese economist, and a permanent board member of the China International Trust Investment Company. In speaking about improving the investment climate, he said it is imperative that we acknowledge our shortcomings in this regard, and as quickly as possible develop our strong points. Otherwise, we will find it difficult to attract foreign capital without ourselves making unreasonable concessions.

According to 1987 year-end statistics, China had sanctioned the establishment of 10,008 foreign invested enterprises. But all these foreign invested enterprises (whether wholly foreign-owned, or joint ventures) had problems to a greater or lesser extent. In facing these difficulties, Jing hit the nail on the head when he pointed out that we are still trying to solve the problem by treating the symptoms but not the disease. We must further institutionalize and legitimize investment matters.

In October 1986, the Chinese government published a 22-article "Regulations on Encouraging Foreign Investment," and to date has published nearly 200 detailed implementation rules and regulations, but during implementation the various localities regrettably have fallen short of what is required. Jing Shuping pointed out that one clause involves benefits accrued to the departments or districts, which cannot be implemented.

Jing said that production on the international market scene presently is being redirected more toward competitive products, and that many countries and regions are beginning to change from labor-intensive production to science and technology-intensive production. We must capitalize on the opportunity afforded by this transformation, attract foreign capital, and focus on cooperating with Hong Kong-Macao and Taiwan industrial and commercial people in particular. Both sides would benefit from this cooperation, and it could take many forms, such as joint ventures, contractual joint ventures, processing imported materials, assembling imported components, and compensation trade. In order to avoid endlessly having to get signatures, we could lease or auction off some enterprises which experience long term losses, and reduce unnecessary and tedious procedures for investors to buy land and build factories, and to request water, electricity, coal, and gas; with the addition of some equipment they could begin operating in short order. This approach would not require a new setup, and we could introduce advanced technology, management experience and funds as well. Factories would be managed by investors, and since both technology and markets are available, they could enjoy rapid returns. The investors certainly would find this attractive.

Will the mainland's prosperity affect Hong Kong's prosperity and stability? Jing Shuping said, "The mainland's development would be advantageous to Hong Kong's prosperity and stability, since the benefits to both principals are linked. Last year the mainland's import-export trade increased 13 percent, while its trade with Hong Kong increased 14 percent. Therefore, the mainland's development and opening to the outside will not "squeeze out" Hong Kong."

C. Balance of Foreign Exchange Issue Essentially Resolved

The deputy bureau chief of the State Administration of Exchange Control, Ling Zeti [0407 0463 2251], also will attend the upcoming conference. When entertaining

these reporters' visit, he pointed out that China has essentially resolved the issue of balancing the foreign exchange of the "three kinds of partially or wholly foreign-owned enterprises," and that foreign investors need not be apprehensive. He indicated that he would impress upon the attendees of the conference the issues of foreign exchange management and foreign exchange balance as they relate to foreign invested enterprises.

Information from MOFERT and the State Council's Special Zone Staff Office corroborates Ling Zeti's conclusions. In recent years, the "three kinds of partially or wholly foreign-owned enterprises" operating in various localities on the China mainland essentially have achieved a foreign exchange balance. Many of the "three kinds of partially or wholly foreign-owned enterprises" in the Shanghai, Beijing, Tianjin, Guangdong, and Fujian areas not only enjoy a foreign exchange balance, but have an excess to boot.

This official, who has long been involved in foreign exchange management for the state, said that as of the end of last year, China had concluded foreign investment agreements totaling \$28.8 billion, with actual investment amounting to \$8.5 billion. He pointed out that the state foreign exchange control apparatus has employed a series of measures to help foreign commercial interests balance their foreign exchange receipts and expenditures:

1. Whoever sanctions a foreign invested enterprise which primarily sells products domestically and cannot balance its foreign exchange is responsible for subsidizing the foreign exchange of that enterprise. If this proves difficult, the matter can be resolved by incorporating it into the state foreign exchange receipts and expenditures plan, after examination and approval by MOFERT in conjunction with the State Planning Commission. Take the Santana automobile manufactured by Shanghai's Dazhong [1129 5883] Motors Corporation, for example: its foreign exchange could not be balanced, so upon approval by the State Planning Commission, the matter was incorporated into the state plan, and the foreign exchange was subsidized to the tune of \$20 million per year.

2. In general, receipts for domestic sales of products produced by foreign invested enterprises should be in renminbi (RMB), but to promote a foreign exchange balance, under some circumstances, if sanctioned by state foreign exchange control departments, it is also permissible to receive foreign exchange for such sales, and a statement to this effect should be appended to the sales contract. These sales would include, for example: highly sophisticated products urgently needed on the domestic scene and which are produced with advanced technology and key technology supplied by a joint venture foreign partner; products produced by Sino-foreign joint ventures which have traditionally been imported, or are urgently needed on the domestic scene; products which Sino-foreign joint ventures sell to the special

economic zones and the economic and technology development districts of the coastal open cities; and products sold to customers drummed up on the local scene. Last year, foreign invested enterprises in China took in the equivalent of approximately \$300 million in foreign currency.

3. Sino-foreign joint ventures, upon MOFERT approval, may utilize the sales channels of the joint venture foreign partner, purchase domestic products for export, and apply the foreign exchange obtained in this manner toward comprehensive compensation.

4. Upon approval, the foreign partner of a Sino-foreign joint venture which has a foreign exchange imbalance may reinvest a portion of RMB profits in a domestic enterprise, and obtain foreign exchange from its legitimate profits deriving from the newly added foreign exchange income of this enterprise.

5. Regulate foreign exchange. Under the unified leadership and management of the state Foreign Exchange Control Bureau, the various provinces, municipalities, and autonomous regions will gradually set up foreign exchange regulatory centers, and the coastal area also may establish such centers in the provincially-administered open cities. The various classes of retained foreign exchange and the foreign exchange of foreign invested enterprises could be mutually regulated through the foreign exchange regulatory centers. Reimbursements could be regulated through mutual consultation between the various provinces, municipalities, and autonomous regions, and regulation also could be effected through a national foreign exchange regulatory center. The regulated price may fluctuate in accordance with the foreign exchange supply and demand situation. Similarly, foreign invested enterprises also could consult with the state-run and collective enterprises regarding regulation of foreign exchange; foreign invested enterprises could receive foreign exchange from RMB income earnings through the foreign exchange regulatory device, which they then would be allowed to expend abroad. Foreign exchange regulation is an important means by which the state can improve the foreign investment climate in China, contribute to the foreign exchange balance of foreign invested enterprises, and promote their development. In 1987, foreign exchange regulated nationwide amounted to approximately \$4.2 billion, and regulated reimbursements of foreign invested enterprises accounted for \$330 million of the total.

In discussing reform of China's foreign exchange management system as contemplated, Ling Zeti said that from now on we will relax policy restrictions on foreign exchange management, simplify procedures, employ economic and legal means to manage foreign exchange, reduce administrative interference, extend the market mechanism, change from direct control to indirect control, and move from advance examination and approval to subsequent review. He also disclosed that China plans to bring in foreign capital banks, and that before these

banks are introduced, the autonomy of the domestic banks to manage foreign exchange will be expanded, and all those which qualify will be permitted to handle foreign exchange business.

In response to a Hong Kong Accountants Association invitation, a Chinese Accounting Society delegation, headed by Ministry of Finance advisor and Chinese Accounting Society president Xie Ming [6200 2494], will attend the China Investment Climate Working Conference to be held in Hong Kong on 12-13 May.

The Chinese Accounting Society and the Hong Kong Accountants Association established cooperative and exchange relations in 1986. This is the third large special topic discussion conference to be held, beginning with the China Investment Issues Working Conference attended by both parties in Guangzhou in 1986.

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Trends in Country's Overseas Investment in 1987, Future Strategy

40060300b Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 18, 9 May 88 p 28

[Article by Qi Yongqiang [7871 3057 1730]: "China's Overseas Investment Increased Substantially Last Year"]

[Text] Last year, 1987, saw the most rapid increase ever in China's overseas enterprise investment. In that year, China sanctioned the establishment abroad of 124 non-import-export trade enterprises, which brought the total number of such enterprises to 385.

China began investing in enterprises abroad in 1978. For more than 9 years now, the country has made significant progress in "utilizing domestic and foreign resources, and opening up domestic and foreign markets." Not only has China assimilated a large amount of foreign capital, which has helped the country develop its economy, it also has begun a gradual increase in overseas investment, and this has strengthened ties between China and other nations of the world, especially third-world countries.

According to statistics of the Foreign Economic Cooperation Department of the Ministry of Foreign Economic Relations and Trade (MOFERT), by the end of 1987 China had 385 contractual joint ventures or wholly foreign-owned enterprises operating abroad in 66 countries and regions. Total investment in these ventures amounted to \$1.78 billion, of which China contributed \$623 million, or 35 percent.

A. Eighty Percent of Overseas Invested Enterprises Doing Well

Although China's overseas investment activity has barely begun, the prospects are bright. The vast majority of Chinese invested enterprises currently operating are doing well. More than 80 percent are showing profits and enjoying balanced revenues and expenditures. In particular, all those which were sanctioned and inaugurated in the last 2 years have met their projected goals. Certain enterprises have even enjoyed good economic returns, such as the Sino-Bangladesh Wen Xiang [5730 7449] (Rooster Brand) Corporation, jointly established and managed in Bangladesh by the Fujian subsidiary of the Native Produce and Animal By-Products Import-Export Corporation.

Sixty-four of the 124 overseas enterprises newly sanctioned by China last year, or 51 percent, were industrial or agricultural processing productive enterprises. Next came consultative and information services, natural resource development, communication and transportation, and comprehensive industrial-technical-trade enterprises.

The steady development of Chinese foreign-invested enterprises has not only helped China's domestic economy, at the same time it has also enhanced cooperative economic trade relations between China and various other countries. In particular, it has played an important role in promoting "south-south cooperation" and helping third-world countries develop their national economies. As China's policy of opening to the outside progresses, its overseas investment will increase, especially its investment in third-world countries.

The scope of China's foreign investment also has continually expanded. Last year, the China International Trust Investment Company (CITIC) and the China Nonferrous Metals Industrial Corporation invested more than \$100 million in stock issued by the Portland Aluminum Plant in Australia, which represents China's largest overseas investment to date.

B. Three Emphases of Future Overseas Investment

People involved with overseas investment issues feel that, given the country's national conditions, the emphasis and direction of China's future investment in overseas enterprises will be in the following three areas:

1. Natural resource development and exploitation. The major resources are forestry resources (which include lumber, paper pulp, and plywood), fishery resources (primarily deep-sea fishing and aquatic product processing), and mineral resources (mining and smelting iron ore and the ores of certain nonferrous metals). China's principal imports in recent years have included industrial raw materials such as lumber, iron ore sands, and nonferrous metals such as copper, aluminum, lead and tin. Cooperative investment in these raw materials could

counter China's resource insufficiencies, and at the same time, since China's investment in natural resource exploitation primarily goes to third-world countries, could satisfy those countries' economic development requirements as well.

2. Medium and small-size productive enterprises engaged in industrial and agricultural processing. China is a large agricultural country, and although it enjoys a limited industrial base, at its present stage it does not yet possess the wherewithal for cooperative overseas investment in heavy industry. Consequently, China will concentrate its investments in medium and small-size productive enterprises engaged in industrial and agricultural processing, especially those operating abroad for which China can supply equipment, technology, raw materials, and other goods, and for which China can send personnel to assume technical guidance and management roles. This approach will take full advantage of the country's medium and small-size enterprises and labor-intensive enterprises, utilize mid-level technology to meet the needs of developing nations to expand their industrial and agricultural production, and thereby expand China's foreign exports and increase foreign exchange earnings.

3. Combined industrial-technical-trade enterprises. China is a developing nation, and overall industrial modernization remains at a low level. In addition, the country employs low-level technology. Accordingly, a portion of China's future overseas investment will be concentrated on those comprehensive industrial-technical-trade enterprises which are capable of helping to introduce advanced technology, key equipment, spare parts, and new products. Through this type of cooperative investment, the Chinese side can become knowledgeable in the advanced technology of foreign countries, and it can use this knowledge to transform traditional domestic enterprises, upgrade equipment and facilities, and replace technology. We must take special care to promote ventures which can help China's domestic enterprises raise product quality, increase product variety, and develop new products. This will help the country expand its foreign exports.

C. Strengthen Investment in Third-World Countries

How is it that China significantly increased its overseas investment last year? An analysis by people involved suggests the main reason was the stability of China's reform and its policy of opening to the outside. In addition, the foreign entrepreneurs' policy of opening to China has spawned a feeling of trust, and they are ready to cooperate with this country. Secondly, China has strengthened its investment in third-world countries. In 1987, China redirected its fund investment away from developed countries such as the United States, Japan, and Canada, and toward developing third-world countries. A total of 109 Chinese invested enterprises inaugurated last year, or 88 percent of those newly sanctioned during the year, were in third-world countries.

China's overseas investment at present is primarily distributed in the United States, Federal Republic of Germany, Japan, Canada, and the Hong Kong-Macao district. There has been a rapid increase in recent years in investment in developing countries such as Thailand, Bangladesh, North Yemen, Saudi Arabia, and Mauritius, and such investment is growing substantially. This year, in addition to strengthening existing markets, China will devote itself to opening up markets in Latin America and the South Pacific. Furthermore, the country will concentrate on improving management at enterprises already operating.

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Ways To Improve Legislation on Shanghai's Foreign Investment

40060295 Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 3, 15 March 88 pp 48-51

[Article by Zheng Yanshao [6774 5888 2626] and Hou Fang [0186 2397] of the Shanghai Academy of Social Sciences, Legal Research Institute: "Comparing Shanghai's Laws on Foreign Investment With Those of the Four Asian NICs"]

[Excerpt] As we accelerate the construction of Shanghai's urban infrastructure and increase the work efficiency of its functional departments, we now need to seriously consider how we will further perfect foreign investment legislation, how we will strictly enforce such laws, and how we will ensure obedience to them. We must do these things if all preferential measures are to be truly workable and if Shanghai is to have a more attractive investment climate. The writers think that the following items are the most crucial in achieving these goals:

1) "Generalized Laws:" Shanghai should quickly formulate some "Shanghai Municipality Regulations Governing Foreign-Invested Enterprises" (these regulations could also be extended to govern investments by overseas Chinese returning to China). The regulations should be based on our country's laws, on the State Council's administrative rules and regulations, and on the powers granted Shanghai by central authorities. As a summary of Shanghai's experiences in opening up to the outside world in recent years, the regulations should give rise to generalized provisions which address the many features particular to this opening up and which cover the various forms of foreign investment. They should cover such fundamental issues as the scope of these investments, judicial procedures, management autonomy, and preferential taxes. The general provisions should then form the basis of Shanghai's formulation of other local rules and regulations covering the absorption and utilization of foreign investment and technology. The provisions would be the basic laws or parent laws of local rules and regulations governing foreign investment, and as such they should be simple, clear, and easy enough for the foreign investor to understand at a glance. Both Taiwan and South Korea have already formulated their own

investment codes as general guidelines. For example, based on its need for economic development, the South Korean government in July 1984 combined three of its laws together, its "Absorption and Control of Public Loans Law," its "Foreign Investment Control Law," and its "Foreign Investment Absorption Law," and after making revisions, promulgated a new law, the "Foreign Investment Absorption Law." As early as the fifties, Taiwan formulated two basically similar guidelines, its "Regulations Governing Investments by Overseas Chinese Returning to Taiwan" and its "Regulations Governing Investments by Foreigners." All subsequent foreign investment rules and regulations have been based on the principles of these two regulations.

2) "Refined Laws": Comrade Deng Xiaoping demands that legislative work should "start out in rough form and end up refined." This means that a rough draft is better than no draft and that a refined draft is better than a rough one. Up through the end of 1987, the Shanghai Municipal People's Congress Standing Committee had passed only two local rules and regulations which dealt with the absorption of foreign capital. One of the two was a set of provisions covering the examination and approval of applications for "the three kinds of partially or wholly foreign-owned enterprises." The other was a set of provisions governing the management of personnel by "the three kinds of enterprises which are partially or wholly foreign-owned." The Shanghai Municipal People's Government has drawn up quite a few governmental rules. These rules have been in practice for several years now, and the ones which have been refined are in urgent need of being submitted to the Shanghai Municipal People's Government or to its Standing Committee so that local legislative procedures can be completed. A further reason for doing this is that foreign businessmen have made it generally known that our rules and regulations are too bound up in principles and not so nearly clear and precise. By contrast, foreign investment legislation from the "four Asian NICs" contain clauses which are more concrete and thorough. There are fewer elastic clauses—the kind which are always open to interpretation. As a result, enterprises going through the process of absorbing foreign investment in the four Asian NICs can solve each and every problem encountered along the way in accordance with refined laws.

3) "Comprehensive Laws": We must link auxiliary regulations together in order to form a comprehensive investment law. The government should immediately formulate the auxiliary, local rules and regulations in addition to the generalized investment regulations mentioned above. These auxiliary rules and regulations should cover such areas as Sino-foreign contractual joint ventures, wholly foreign-owned enterprises, the processing of material provided by foreign clients, the assembly of parts supplied by foreign clients, compensation trade and the implementation of economic contracts involving foreign nationals. They should also cover technology import, foreign trade, corporate law, bankruptcy, negotiable instruments, insurance, and leases. By putting

together such auxiliary rules and regulations, the government would give concrete form to each clause of its generalized enterprise investment regulations. When devising comprehensive laws, the experience of the "four Asian NICs" are well worth drawing upon. In Taiwan, the law concerning absorption of foreign investments is comprised of three basic laws in addition to a whole series of related laws. In South Korea, the foreign investment legislative system is also more comprehensive. Although Hong Kong and Singapore continue to use the British legal system, in recent years they have formulated many laws which reflect their own national characteristics. At the end of 1986, for example, Singapore compiled and published in 13 volumes a very complete set of laws. Hong Kong has published a 26 volume set of statute law, a rather systematic comprehensive system of rules and regulations.

4) "Strict Laws": The foreign investment law should be strictly enforced. Not only must the foreign investor in a foreign-invested enterprise abide by this law, but the Chinese joint venture partner must abide by it too. Not only does the foreign-invested enterprise need to adhere to this law, but all management departments within the enterprise as well as all government departments, legal entities, and natural persons involved with foreign investments must obey this law as well. In Hong Kong, administrative bodies at all levels conduct business according to law, and as a result, Hong Kong is highly efficient and enjoys a good reputation in international markets. Singapore is famous for its strict enforcement of laws, an enforcement which produces good social results. The foreign investment laws of Taiwan and South Korea stipulate punishments for those who do not obey relevant clauses in the laws. This assures conscientious compliance with all clauses in their foreign investment laws. Shanghai should use legal measures to gradually implement the principle of strict enforcement of such laws. Supervision over the enforcement problem can be achieved if necessary enforcement rules and regulations are formulated, or if provisions for appropriate punishments are made within existing rules and regulations.

5) "Special Laws": We must formulate "Economic and Technological Development Zone Regulations." Shanghai should concentrate all its efforts on establishing an economic and technological development zone, and it should do this by exploiting its own special favorable conditions as well as by setting up productive enterprises that are technology-intensive and that have exports which earn foreign exchange or that use import substitution. Such a zone would be Shanghai's open window to the outside world. It could serve the city as well as the entire nation. Both Hong Kong and Singapore are free-port cities which specialize in processing. Taiwan and South Korea's successful experiences in absorbing foreign investments have been due in part to the fact that at Hsinchu and Masan they first established export processing zones and science and industry experimental parks as bases from which they opened up to the outside

world. Our country has now been divided into economic special zones, open coastal cities, open coastal zones, and open inland zones—a developmental pattern with different focal points, a pattern that is gradually moving ahead. Economic and technological development zones are important to coastal cities because they use preferential measures to attract foreign investors into setting up enterprises for product export or for setting up advanced technology enterprises. Shanghai is simultaneously an open coastal zone and an open inland zone, and its economic and technological development zone has in fact already adopted the same preferential policies as those used for economic special zones. Shanghai should fully utilize the superior position which it already occupies in order to formulate some special regulations for its economic and technological development zone.

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Proposal for Developing Compensation Trade
40060346 Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 4, 30 Apr 88 pp 41-44

[Article by Wu Enfang [0702 1869 5364] and Yu Bei [0358 5563] of the Bank of China, Beijing, International Monetary and Financial Institute: "Proposal for Developing Compensation Trade—An Investigation of the Compensation Trade Development in Beijing Municipality"]

[Text] In keeping with the unceasing development of flexible foreign trade work, compensation trade has already become an important way for our nation to make use of foreign capital, introduce technology and equipment, and speed up the progress of the four modernizations. Beijing Municipality, after several years of trying out various practices, has already made a good start. First, it has lessened the problem of foreign exchange shortage. Since 1978, Beijing Municipality has used compensation trade to introduce individual machinery or complete sets of equipment valued at close to \$150 million, but Beijing Municipality generally keeps its use of foreign exchange below \$200 million a year. If we depend upon Beijing Municipality's local foreign exchange only to import the above mentioned technology and equipment valued at close to \$150 million, many projects won't get started until several years from now, and it will push back the process for renewal and transformation of the technology of related enterprises. Compensation trade uses export products as a direct pay back, more often than not it uses future products. Thus, it can clear away the obstacle of having insufficient foreign exchange during a certain period. Second, it has expanded Beijing Municipality's production capabilities, renewed product varieties, and raised the levels of technology and the rate of labor productivity. Since 1978, Beijing Municipality has used compensation trade as the way to import various kinds of complete sets of equipment, over 3000 pieces or sets of production equipment, and over 20 production lines. This has not only

raised the production capabilities of the enterprises, the technological level and the extent of domestic production, but also has brought forth some new products. For example, the chemical fiber rugs with rubber backing produced by the Shi [1579] Carpet Company using equipment imported from Japan, line protection switches produced by the Beijing Low-Voltage Electrical Plant using equipment imported from West Germany, as well as other projects, have filled gaps in this city and in the nation. Third, it has enlarged exports and reduced imports of certain products or raw materials. In the past few years, nearly \$20 million worth of products have been exported through compensation trade, and one-fifth of the enterprises have continued to create an estimated \$5 million of foreign exchange after the conclusion of their projects. At the same time, certain products that were in short supply on domestic markets or raw materials and spare components which had to be imported from abroad in great quantities can be produced and processed by domestic enterprises using imported equipment and production lines, thereby solving the problem by ourselves. For example, the Beijing Special Steel Mill, after introducing high efficiency wireboard machines from Sweden, increased its annual production of steel wire by 20,000 tons. Aside from alleviating the production needs of the construction industry and light industry enterprises in the capital, it can also correspondingly reduce imports and save the nation approximately \$12 million in foreign exchange.

However, in developing compensation trade a few noteworthy problems have emerged:

1. The scale of development of compensation trade is gradually growing smaller. Viewed from the situation in Beijing Municipality, the 4 years between the end of 1978 and the end of 1982 were a period of rapid development. 66 projects were launched throughout the city, totalling \$136.09 million, and accounting for 93 percent of the total amount of all projects. But in the three and one half years between 1983 and the end of June, 1986, only 21 projects were launched, accounting for 7 percent of the total amount of all projects.
2. With the majority of products, buy backs present difficulties. From the end of 1978 through the first half of 1986, Beijing Municipality successively concluded 87 compensation trade projects with foreign merchants, and estimated 65 of which have already been completed. Among the projects which have already been completed, buy backs total only \$16.43 million, amounting to 25.4 percent of the contracted buy backs. Thus, due to an inability to effect buy backs of the products during the course of the projects, the remaining 74.6 percent must be substituted for with cash, bank loans or export products to pay back the costs of the equipment imported from foreign merchants. As a result, currency exchange cannot be made in time, enterprises sustain increasingly huge losses, production and management operations are effected, and overdue bank loans mount.

We feel analysis of the reasons for the above mentioned problems points to the following aspects:

1. Changes in the international market. There are numerous situations where product buy backs have been influenced by changes that have occurred in the international market. From a domestic standpoint, we don't fully understand the international market; from a foreign standpoint, they haven't made accurate predictions for the international market. This kind of problem has been at the root of 61 percent of the 26 projects where there have been unexecuted contracts and buy back difficulties. Because of price fluctuations in the international market, the compensation deadline has been extended or the originally set buy back amount could not be completed for products of certain projects, and for some products, no buy back could be made at all. For example, in the compensation trade agreement between a certain plant and an American company, because the buy back products met with stiff competition on the international market and the price went way down, the American company demanded a two and one half year extension on the product compensation deadline. Another example, in the compensation trade agreement between a certain plant and a West German company, because of stiff competition on the international market in recent years and factors such as price fluctuation, only 10 percent of the buy back products from the original buy back plan were exported.

2. No precise grasp of foreign funding and credit conditions. First, foreigners have sold us old equipment; second, foreign management itself has met with difficulties leading to unilateral termination of contracts. This kind of problem accounts for 32 percent of the projects with unexecuted contracts and buy back difficulties. For example, in the compensation trade contract between a certain plant and a Japanese company, because we didn't completely grasp the funding and credit conditions on the Japanese side, twice in a row they foisted off on us inferior production lines, the quality of which did not meet the required provisions of the contract. That certain plant repeatedly notified the Japanese side to come to the plant to inspect and solve problems of equipment quality. The Japanese side turned a deaf ear each time, the result being the two production lines cannot be put into production.

3. Problems in raw material sources. Some compensation trade projects have problems with raw material sources at the time they import equipment. First, domestic supply of raw materials doesn't meet demand. Second, we need to import the raw materials, but due to shortage of foreign exchange, we cannot make the purchase. Third, foreign merchants discontinue supply of materials or don't ship them on schedule, so product buy backs cannot be made in time or at all. Some projects don't thoroughly consider the question of raw material sources at the time they are set up. This kind of problem accounts for 14 percent of the unexecuted compensation trade contracts and projects that have experienced buy

back difficulties. For example, a contract was signed between a certain plant and a Swedish company to import a total of four production lines for pull-tab cans. The equipment succeeded in a single test run, the quality was good and international standards were met. The full cost of the equipment had been paid to the other party with a bank foreign exchange loans; however, because there was no raw material source for the tin plate, the production lines have been shut down all along, and there is no way to execute the original compensation trade agreement. Many domestic factories placed orders with that plant, but the plant has no way to produce because of its lack of raw materials. By the end of 1986, interest on the foreign exchange loan had already reached over \$600,000 and the plant is carrying an increasingly heavy burden.

4. Buy back product quality doesn't meet requirements. Because of limitations in the level of domestic technology and in production capabilities, buy back product quality can't meet requirements and products are not accepted by the foreigners. For example, in the compensation trade agreement between a certain plant and an American company, because of the poor domestic processing molds and maintenance levels, the imported production line couldn't meet its designed production capabilities, product quality couldn't meet export standards and the foreigners wouldn't accept the products. The parties are still continuing to negotiate because of the buy back product quality problems.

5. Loose contract provisions. This kind of problem is also fairly pronounced. Some compensation trade contracts don't stipulate the price of products. Some don't stipulate the responsibilities to be borne in the event of a contract breach, some don't clearly specify the standards for quality inspection of buy back products or set them too high. For example, a certain plant, when entering into a compensation trade contract with a French company, didn't stipulate the price for buy back products, and so, the foreign merchant, when undertaking its duty to buy back products, pushed the price down very low. That certain plant feels that it would be better off finding its own foreign market outlets. The funds for the imported equipment have already been paid out in foreign exchange loans through the Beijing branch of the Bank of China, but it has brought great difficulties to the enterprise in such areas as repayment of the funds and management.

Some contract provisions in compensation trade are not linked up with those for the imported equipment. A payment provision from an equipment introduction contract: 15 percent of the total contract amount should be paid in a down payment (the foreign party will provide a counter letter of guarantee), 75 percent of the total contract amount will be paid by a letter of credit issued by the Beijing branch of the Bank of China. 10 percent of the total contract amount will be paid after the equipment is inspected upon delivery (the foreign party will provide a counter letter of guarantee covering 5

percent of this.) That is to say, 80 percent of the cost of the equipment is guaranteed by the Chinese party, but there were no corresponding provisions for arbitration in the event that the products could not be bought back. In every contract, the provision are well-knit but the contract has no binding force between the two parties.

In actuality, what often happens is that after the cost of equipment is paid, product buy back runs into some problem, no provision can be found that restricts the foreign party, and in the end, the bill for the equipment is paid with a foreign exchange loan from the bank and the Chinese party sustains the loss.

The formulation of contracts themselves has a certain flexibility. For example, when a certain plant entered into a contract with a certain foreign merchant, it permitted the contents of the contract to be adjusted according to changes in the market. As a result, the foreign firm called for alterations in the types and specifications of the buy back products on three occasions and postponed delivery of the patterns they should have supplied for nearly 2 years. According to the contract, buy backs should begin in 1984, but until now, they still haven't started making buy backs.

6. An inappropriate choice of projects. Investigation shows that in some instances the enterprises didn't want to undertake the project but were pressured into doing so by higher authorities. Some projects were not qualified to undertake compensation trade. For example, a certain plant, did not agree to undertake its compensation trade project because it was unqualified in such areas as plant building, machine room, personnel, technology and transportation. Its claim was not accepted and in the end, for a variety of reasons, problems emerged in their execution of the project. This caused the plant great losses that year and indebtedness to other units.

To sum up, the above mentioned problems emerge in the course of developing compensation trade for a variety of reasons. Many of the problems are interwoven causes and effects of other problems and can't simply be lumped together.

In order to promote further development in the use of foreign capital, the following proposals are presented in response to the above mentioned compensation trade problems.

1. Compensation trade work should be put in its proper place. At present, there are over 4,000 enterprises in Beijing Municipality, of which over 90 percent are medium and small enterprises. The technology transformation mission is fairly important to medium and small enterprises. However, Beijing Municipality can provide only a limited amount of foreign exchange to be used each year which doesn't meet the foreign exchange requirements of medium and small enterprises for their technology transformation. Also, the disparity between supply and demand is quite wide. Thus, a good way to

help the foreign exchange fund supply meet the demand is to open up all avenues of funding and made vigorous use of foreign capital. Compensation trade is one way of using foreign capital. Compensation trade compensates for the costs of imported equipment and technology by using the products produced with this equipment and technology, instead of paying cash. It is a good way of "borrowing a hen to lay eggs." So, we hope that the departments concerned will attach importance to this work and will henceforth treat it as an important means of utilizing foreign capital.

2. We must improve management in compensation trade. Because compensation trade undertakings are fairly complex, encompassing all aspects of production, circulation and credit, management coordination work is extremely important and we should improve the unified management of compensation trade projects throughout the city. This includes primarily: (1) project examination and approval, and management. The examination and approval of projects should be concentrated in one department. Before examination and approval of the project, we must particularly take note of the feasibility research done for the project and listen carefully to the opinions of such departments as the State Planning Commission, the State Economic Commission, the State Administration for Exchange Control, and the banks. We can consider uniformly specifying main points in a feasibility study to be done before examination and approval of the project and basic key provisions to be included in compensation trade contracts. (2) Supervision of project implementation. After a compensation trade project is approved, we must improve the management of the enterprise engaged in compensation trade, and make for integrated cooperation in dealing with problems that emerge in the course of compensation trade such as raw material sourcing, foreign exchange adjustment, and bank loans. (3) Improve statistics work for the project. At present, statistics for compensation trade projects are far from sound. First, they are not complete. For many compensation trade projects only the situation existing at the time of examination and approval is recorded, but there is nothing recorded to indicate whether the project is finishing or how operations are going. So, efforts should be made to improve the statistics work in compensation trade projects. (4) Sort out and rectify the affairs of past projects. Some projects were to finish all buy back transactions in 1982 according to the contract, but to date they have still not been completed. These kinds of projects should be sorted out and rectified for a proper resolution.

3. Improve feasibility studies for compensation trade. Because the compensation products of compensation trade are generally sold through foreign companies, our dependence on foreign companies is great, and our production enterprises find it very difficult to have any control over the situations. Once a foreign merchant undergoes management changes or the costs of equipment have been paid before products are exported for

compensation, we are often faced with product sale problems. Therefore, all departments concerned should ardently conduct feasibility studies, such as: (1) Funding problems. Does the project have foreign exchange and renminbi support? This includes primarily: employment of funds due to late delivery of compensation products, bank credit guarantee liability, bank foreign exchange loans and interest debts, employment fees for specialists, product transportation costs, and so on. (2) Professional personnel conditions. This includes primarily: How is the enterprise's technological force? Will equipment be understood and put to use soon after it is imported? Can compensation products meet the quality requirements standards? (3) The foreign party's funds and credit conditions and management abilities. Is the foreign party trustworthy and reliable? Is it a producer or an intermediary business? (4) The marketability of buy back products on the international market. Is it a product in urgent demand or suitable for use in the country of the buy back party? (5) Are raw materials sure to be available? Is it certain that the raw materials can be domestically supplied? How will they fit together as a whole here in China? In addition, are the provisions of the contract complete? Are both parties bound by mutual conditions?

4. In the near future we should develop compensation trade along the lines of small amounts for short periods. Because there are so many unstable factors in compensation trade, changes in future markets for goods and money as well as in conditions for production can all have an influence on the supply and sales of compensation products. This could have a bearing on the profits of both parties. Compensation trade is a riskier business than most other forms of trade. Thus, compensation trade should be limited to the shortest possible periods and the capital involved shouldn't be too great. According to the situation existing at the time of this investigation, the projects able to carry out their contracts and fully export all buy back products are generally projects that dealt in fairly small amounts of capital. The majority of these projects kept themselves under \$1 million, the average being under approximately \$365,000. On the other hand, projects which have experienced difficulties sending out their products for buy back or other problems have generally dealt in fairly large amounts of capital; the average projects of this kind being over \$2.889 million. Those projects which performed their contracts with notable economic results are primarily concentrated in the 16 projects of up to 1 year duration (including one year), accounting for 79.10 percent of the 1 year duration project. Next come the projects of from 1 to 3 year duration (including 3 years). Those projects which performed their contracts accounted for 62.96 percent of the 17 projects in this 1-3 year category. As the compensation period lengthens, we also find a decrease in products exported for buy back. Next come the projects which have compensation periods of over 5 years, none of which managed to fully carry out its contract and export its products for buy back. So, we recommend that the departments concerned should

place primary emphasis on small capital amounts and short compensation periods when developing compensation trade.

13072

LABOR

Country's Labor Markets Achieve 'Marked Success'

40060337 Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA ECONOMIC SYSTEM REFORM] in Chinese No 4, 23 Apr 88 pp 44-45

[Article by Yu Faming [0060 3127 7686]: "China's Labor Markets Achieve Marked Success"]

[Text] The 13th National Party Congress stated that it was necessary to speed up the building and cultivation of the market system, which is the key element of socialist production. As a major component of this market system, labor markets have naturally attracted the attention of all fields.

The serious takeoff of China's labor markets began after the State Council promulgated four regulations for the reform of the labor system in October 1986. The regulations of the State Council demand that enterprise recruitment be oriented toward society, go through public channels, be based on competition, and implement the labor contract system in all cases. This gives both enterprises and laborers the right to choose, and combines the market regulation of social labor with the flexible employment mechanism inside enterprises. Under this circumstance, in order to provide good service centers for enterprises and laborers to choose their employers and employees, some cities have established comprehensive labor markets for the employment of enterprises and exchange of skilled workers. Some cities have included in labor markets those workers whose contracts have been terminated and those who have been fired for violating discipline to help them find new jobs. Some cities have expanded simple exchanges of skilled workers to regulation of enterprises' surplus personnel, and some cities have developed from labor exchange rallies to regular service centers. Labor markets have become an indispensable external environment for changing the mechanism of enterprise management.

As of today, 28 provinces, autonomous regions, and municipalities across China have established skilled workers exchange service centers and carried out activities to regulate skilled workers and surplus personnel through the medium of markets. Dozens of cities have established employment centers to offer services to all kinds of people waiting to find jobs. Many cities have begun to provide, through labor markets, guidance and organized control for rural laborers seeking jobs in urban areas. And cities with better developed labor markets are beginning to have multi-level and multifarious setups for labor markets.

Practice has proved that the rise and development of labor markets have played a positive role in promoting the rational distribution of labor forces, changing the mechanism of enterprise recruitment, increasing economic performance, and accelerating the development of productive forces.

First, it has created an ideal external environment for enterprises, especially large and medium-sized state enterprises, to exercise decision-making power in employment. The main expressions of this are: 1) Enterprises can choose and hire the best suitable workers according to the need of production. 2) When production and management are adjusted to suit market changes, enterprises can readjust labor forces accordingly in a timely manner. 3) Labor surplus and shortage may be regulated among enterprises. Shanghai, Beijing, and Guiyang municipalities have found, through labor markets, up to 10,000 laborers for the textile industry, which had problems hiring workers; and, at the same time, transferred surplus personnel on the second and third fronts of the textile industry to the tertiary industry, thus alleviating the contradiction of surplus and shortage in the labor structure of the textile industry.

Second, it has provided a place for laborers to find the jobs of their choice. Through the introduction of employment centers, young people awaiting jobs in rural and urban areas may find a better job according to their own interests, hobbies, skills, and specialties. Workers whose labor contracts have been terminated and other people who are looking for new jobs can also find the opportunity of new employment in labor markets. Some enterprise employees who cannot put their knowledge and talents to good use in their current positions may also change their jobs and positions through labor markets. This helps ensure that competent people and their talents are put to good use. At the same time, labor markets have also introduced the mechanism of competition into laborers' job selecting activities, thus encouraging laborers to strive to study vocational and technical skills to upgrade their qualifications.

Third, it has alleviated the contradiction of technological shortages of collective enterprises, especially town and township enterprises and thus accelerated their development. China's current distribution and structure of technical personnel is very irrational. In large and medium-sized state-run and military industrial enterprises which have abundant technical forces, many technical personnel are wasted while collective enterprises, especially town and township enterprises are short of technicians, suffer from the low quality of products and lack competitiveness on the market. Since the opening of labor markets, skilled worker exchanges have been carried out everywhere. Shenyang Municipality sent 18 technicians to a soft drink machine factory which was deficit-ridden through a labor market, enabling this enterprise to quickly revive its production and become the star enterprise of the municipality. By establishing labor markets, which are based on enterprises and oriented toward

society, Xian Municipality has used the technical forces of large and medium-sized enterprises to offer technical services to town and township enterprises and thereby accelerated their development.

Fourth, it has provided convenience for the daily life of urban and rural residents and eased workers' family burden. Most comprehensive labor markets in large and medium-sized cities provide domestic services and services to help regulate long distance commuters. Among some cities such as Beijing, Tianjin, and Shanghai, activities have been carried out to regulate husbands and wives who have been separated because of their jobs. According to incomplete statistics, the labor markets of Beijing, Shanghai, and Shenyang municipalities alone have helped over 10,000 long distance commuters change jobs and recommended about 40,000 housekeepers, winning the appreciation of workers and residents.

Fifth, it has accelerated the functional changes of labor administrative departments and the reform of the labor system. While establishing labor markets, labor administrative departments in all localities have set up information networks and various service centers to act as go-betweens and provide information and services for recruiting units and laborers to choose their employers and employees, initiating a change in the situation where labor forces are managed simply through administrative means. The development of labor markets has enabled the reform of the labor system to deepen continuously, and labor departments in all localities have, through labor markets, gradually perfected the labor contract system and eased restrictions in the fixed labor system to remove obstacles for the rational exchange of workers and to gradually deepen the reform of labor system.

China's labor markets have achieved marked success. However, judged from the national level, we should say that our labor markets are just beginning and leave much to be desired.

First of all, they are on a narrow scale. Laborers of rural areas, collective enterprises, and the individual economy in general were the first to enter labor markets, and most laborers under the labor planning and management system have not really begun to circulate.

Second, the market mechanism is imperfect and administrative measures are excessive. The market mechanism of existing labor markets is generally imperfect and their regulatory functions limited. Especially for personnel and technician exchange between urban and rural areas, the market mechanism is poor and administrative means are excessive, which explains why many personnel and technician exchange organizations have been established but not many exchanges have been carried out successfully.

Third, the development of labor markets is uneven. Generally speaking, labor markets have developed faster in coastal areas and areas with better developed commodity economies and slower in remote areas and areas with less developed commodity economies, failing to establish a complete national network.

We should realize that the above problems are unavoidable during the initial founding period. However, we should also adopt positive measures to overcome such problems to make labor markets more prosperous and perfect.

12302

AGRICULTURE

Highlights of Increased Investment in Agriculture 40060381a Beijing NONGMIN RIBAO in Chinese 24 May 88 p 1

[Article: "Some Provinces and Municipalities Go All Out to Raise Money For Increased Investment in Agriculture—Act in the Spirit of the Seventh NPC; Diligently Improve Agricultural Production"]

[Text] At the first meeting of the Seventh NPC, numerous delegates called for an increase in investment in agriculture to build up reserve strength for the development of agriculture. In his government work report, Comrade Li Peng listed "vigorous development of agricultural production" as the prime task during the next 5 years. Following the conference, individual provinces, municipalities, and autonomous regions took every possible action to consolidate and develop accomplishments made in rural reform, particularly going all out to raise money for increased investment in agriculture. As a result, prospects for rural development are bright everywhere throughout the country. The following is a report on the latest situation obtained by the correspondents from some provinces and municipalities.

Henan. Funds Allocated For the Building of Water Conservancy

[By Lu Xinyun [7627 1800 0061]]

[Text] The Henan Provincial Government recently studied allocations, deciding early this year to make a further 67.5 million yuan investment in agriculture on top of the 67 million yuan it had already decided to invest, for a doubling of investment. It also decided to invest continuously over the next 3 years, investment totaling 403.5 million yuan. The source of these funds is as follows: 20 million yuan was squeezed out of the province's overall capital construction funds; another 20 million yuan came out of the provincial governor's reserve fund; still another 20 million yuan came from a curtailment of provincial treasury outlays; and 7.5 million yuan came from an increase in funds to build 15 wheat base counties. These funds were used mostly to eliminate dangers by reinforcing reservoirs, for bringing medium and small streams under control, for equipping drainage and irrigation ditch systems, and for farm electricity, science and technology, and meteorological projects. The funds have been allocated to specific projects.

Sichuan. Government Financial Support to Agriculture Given First Place

[By Yin Bangliang [1438 6721 5328]]

[Text] When the Sichuan Provincial CPC Committee and the provincial government plan their financial budget at the beginning of each year, support for consistent growth in grain production is always the first task in financial support to agriculture. At the beginning of this year, a payment of 418 million yuan was planned for agricultural production, and another 401 million yuan went for irrigation and meteorological work for a total expenditure of 819 million yuan. The amount for agricultural production represented a 6.4 percent increase over 1987, and the amount for irrigation and meteorological work was 12.4 percent more than in 1987. Recently the province decided to add another 7 million yuan to the 94.08 million yuan already allocated for capital construction for agriculture, an increase of 7.4 percent over 1987.

Jilin. Investment in Agriculture Up 5.7 Percent Over 1987

[By Song Xunfeng [1345 6676 7364]]

[Text] China's main commodity grain producing region, Jilin Province, is facing real difficulties from a shortage of both the means of production and funds. It has actively rallied forces in all quarters, thoroughly tapping the potential existing in the society. Investment in grain production for 1988 is 1.65 billion yuan, up 5.7 percent from 1987 (including 670 million yuan raised by the peasants themselves). Spring plowing and sowing has proceeded rapidly, and quality is good. The sowing of grain crops has been completed. Early this year, when a serious shortage of both the means of production and funds occurred, the provincial CPC Committee and the provincial government critiqued experiences gained from high investment for high output in grain production throughout the province; they organized the business and the supply and marketing sectors, as well as cities and counties in all jurisdictions so that each might help out as best it could.

Before spring plowing began, 2.4 million standard tons of chemical fertilizer, 12.5 percent more than had been planned at the beginning of the year; and 2,308 tons of plastic sheeting for farm use, a 60.7 percent increase over 1987, had been bought. In addition, 126 million cubic meters of farmyard manure had been made ready, 9.6 percent more than in 1987, and 430 million jin of improved varieties were available for planting, 2.4 percent more than in 1987.

Shanghai. Dedicated Funds for the Development of Agriculture Set Up

[By Pu Baolin [3184 1405 2651]]

[Text] Shanghai's investment in agriculture this year was greater than last year, was more than plans made at the beginning of the year called for, and was up 10.7 percent

over 1987. A total of 185 million yuan was to be spent on agriculture, part of the increase being mainly for setting up "dedicated funds for the development of agriculture." These funds would be used for reclaiming beach flats for agriculture, reclaiming former residential areas, expanding the cultivated area, and renovating and improving low yield fields to increase yields per unit of area. Data provided by the Agricultural Finance Office of the Finance Bureau show funds amounting to 20 million yuan for the development of agriculture in 1988, half of which are to be paid to the central government, and half of which are to be retained locally. This does not include county financial investment in agriculture. There is a limit to what the municipal treasury can invest; townships and towns have to be relied on to invest themselves.

Guangdong. New Ideas About Increased Investment in Agriculture

[By Zhang Jingtong [1728 2417 2639]]

[Text] Following the Seventh NPC, Guangdong, which is serving as a test area for complete reform, had some new ideas about agricultural investment.

During the Seventh NPC, Guangdong completely removed restrictions on procurement and sales prices for peanut oil by having local treasuries and enterprises at all levels provide subsidies to cadres, and staff members and employees. Starting in May, an additional large amount of local funds will be obligated to increase price subsidies to grain growing peasants. Following the conference, the governor and all the deputy governors of Guangdong Province went down to the countryside to look into agriculture-related problems in preparation for some new policy measures to strengthen the building of agriculture.

Zhejiang. Grain Surtax Amounting to as Much as 100 Million Yuan May Be Collected in 1987.

[By Liu Xiaojie [0491 1420 2638]]

[Text] At the Zhejiang Provincial People's Congress, which was convened in January 1988, the amount budgeted for investment in agriculture during 1988 was greater than for 1987.

Gross expenditure for agriculture throughout the province in 1987 was 5.12 billion yuan, and expenditure for rural production and various agricultural endeavors was 457 million yuan. Plans call for an expenditure of 471 million yuan for rural production and various agricultural endeavors during 1988, an increase of 14 million yuan. In addition, in order to obtain funds for increased investment in agriculture, the provincial government decided that beginning in December 1987 an ad valorem grain tax of 0.6 percent of market earnings or business

earnings would be levied on township and town enterprises (including family and partnership enterprises) throughout the province. This levy alone may net more than 100 million yuan in 1987.

Shaanxi. Increased Investment For Use in Farmland Capital Construction

[By Guo Maiqiang [6753 6701 1730]]

[Text] Shaanxi Province plans an expenditure totaling 465 million yuan for the support of agriculture during 1987. This is a net increase of 15 million yuan over 1987, and the sum has already been allocated. Most of the increased investment will be used for farmland capital construction in order to improve basic conditions in agriculture. Thanks to the increased investment in agriculture, there was a surge in farmland capital construction during the winter of 1987 and the spring of 1988. During the first four months of 1988, there was a more than 250,000 mu increase over 1987 in the amount of improved or newly added farmland.

Gansu. Increased Investment in a Major Effort To Build Farmland Water Conservancy

[By Qiu Jing [6726 7231]]

[Text] Gansu Province's preliminary plans call for an expenditure of 637 million yuan for all categories of investment in agriculture, a more than 50 million yuan increase over 1987. Beginning in 1987, 20 percent of increased revenues received by the provincial treasury are to be invested in agriculture. Not only will prefectures and counties use 20 percent of their financial resources for agriculture, but a part of all additional revenues each year will be invested in agriculture. In addition, a major effort will be made in the capital construction of farmland water conservancy. During 1987, the wetland area is to be increased by 160,000 mu, and 800,000 mu of the "three fields" [san tian 0003 1131] are to be rebuilt. Material investment in grain production is also to be increased, the corn growing area on which plastic sheeting is used being increased by 550,000 mu, and the amount of uniformly allocated chemical fertilizer being increased by 200,000 tons.

Yunnan. Nearly 10 Percent Increase Over 1987 in Investment in Agriculture

[By Su Beihai [5685 0554 3189]]

[Text] In 1987, Yunnan Province will continue to increase investment in agriculture substantially after having increased investment year by year during the past several years. It will budget a total of 732 million yuan for agriculture, up 9.9 percent from 1987. Investment in agriculture as a percentage of total government expenditures in the province has risen to 13.9 percent from the 12.4 percent of 1987.

In planning expenditures for agriculture, emphasis was given to great use of plastic sheeting in agriculture, to providing irrigation for tobacco, to the building of water conservancy in cane growing areas, and to the building of commodity grain base counties and hog raising bases. In addition, the government decided that counties (and cities) could keep all, rather than just the stipulated half, of the 57.99 million yuan in taxes that had been collected on takeovers of cultivated land beginning in 1987, using it to sustain development of agricultural production.

9432

High Production Costs, Low Prices Whipsaw Grain-Growing Peasants

40060381b Beijing *NONGMIN RIBAO* in Chinese
4 May 88 p 2

[Article by Sun Shian [1327 0013 1344] and He Bin [0149 3453]: "Heilongjiang Peasant Grain Growing Costs Rise But Returns Fall—Means of Production Rise in Price; Grain Prices Too Low"]

[Text] Results of a 1987 Heilongjiang Rural Sampling Team survey conducted among 754 peasant households in 28 cities and counties throughout the province show the cost of growing the six major grain crops (hereinafter referred to as the six major crops), namely paddy rice, wheat, millet, corn, sorghum, and soybeans has risen while their output value has fallen, and profits have declined.

Per mu output value for the six major crops (divided into the arithmetic mean of the crop weighted averages, and the same applies hereinafter) was 90.42 in 1987, 4.83 yuan less than in 1986 for a 5.07 percent decline. Average net output value per mu was 62.68 yuan, which was 8.94 yuan or 12.48 less than in 1986. The reason for the drop in output value, other than the effect of natural disasters, was a drop in the actual average price that peasant households received for grain they sold. Households surveyed on the cost of growing grain sold their grain at a price (a weighted average figure for the six major crops) of 0.528 yuan per kilogram versus 0.530 yuan per kilogram in 1986, a 0.38 percent drop.

At the same time, the cost of growing crops rose. In 1987, the average cost per mu was 41.73 yuan for the six major crops, 4.63 yuan more than in 1986 for a 12.48 percent rise. The average total cost per mu (the sum of production costs, agricultural taxes, and marketing expenses) was 45.81 yuan, 11.76 percent more than in 1986. A rise in expenses for materials was the main reason for the rise in costs. Expenses for materials to grow the six major crops averaged 27.74 yuan per mu in 1986, 4.11 yuan, or 17 percent more than in 1986. This included the cost of operating machinery, which was 1.29 yuan, or 30 percent, more than in 1986, and a 7.47 kilogram per mu use of chemical fertilizer in 1987 (10 kilograms for paddy rice and corn), up 19.52 percent from 1986. The average mixed per unit price of chemical fertilizer was 0.715

yuan per kilogram, a 0.13 yuan increase over 1986 for a 22 percent rise. In addition, 1987 seed prices for the six major crops averaged 6.10 yuan per mu (more than 10 yuan for paddy rice and wheat), 8.35 percent more than in 1986, with prices for millet and corn seeds rising more than 50 percent.

Profits from the six major crops also fell, and the profit to cost ratio declined. In 1987, profits averaged 44.62 yuan per mu, 9.64 yuan, or 17.77 percent, less than in 1986. The profit to cost ratio per mu (i.e., the profit created per unit of total cost) was 97.40 percent, a 35 percent decline from 1986.

The main reason for the rise in grain production costs and the fall in profits was a rise in prices for the means of production and the overly low prices paid for grain. This has not only led to a drop in peasant earnings, which has hurt the standard of living of peasant households, but peasant households also lack funds for production, which is detrimental to the development of production. Consequently, the peasants intensely hope that a readjustment of grain prices will be one of the main actions taken for the development of grain production.

9432

Trends in Meat, Dairy Prices

40060340 Beijing *NONGYE JINGJI WENTI*
[PROBLEMS OF AGRICULTURAL ECONOMY] in
Chinese No 5, 23 May 88 pp 15-18

[Article by Yu Jiabao [0205 1367 1405], Li Yuzhu [2621 3768 3796] and Hong Wujin [3163 3527 6855], School of Agricultural Economics of the Beijing Agricultural College, Agricultural Economics Institute of the Chinese Academy of Agricultural Sciences: "Changes in the National Prices of Animal Food Products and Measures To Deal with These Changes"]

[Text]

I. Changes in the Price Management System of Animal Foods Since 1978

A. Two Phases May Be Distinguished in the Change Process. During the phase from 1978 to 1984, the prices of six principal products—pork, eggs, aquatic products, poultry, and beef and mutton—were controlled by the state, and the state assigned procurement quotas of these products to peasants. So during this stage, prices were fully controlled. But the state also carried out a major readjustment of these prices: Live hog prices were hiked from 98 yuan per 100 kg to 124 yuan, or 25 percent, and egg prices were raised from 1.3 yuan a kg to 2 yuan, or 30 percent. Price readjustments during this phase were cost-push related, because prices prior to 1978 had been so low that peasants found production unprofitable, which made it impossible to expand output. In the phase since 1984-85, the state abolished unified procurement

quotas for all animal foods and gradually decontrolled egg, aquatic, poultry, and beef-mutton prices, maintaining controls only on pork and milk. Since milk is a minor commodity both in terms of output volume and importance, state price control efforts during this phase have been primarily limited to pork sold by food companies, which accounts for more than 60 percent of national pork sales and for an even higher share in large and medium cities. Thus by controlling food company pork prices, the state has been able to influence all market pork prices. Price control during this phase has been partial.

However, in early 1985, Central Document No 1, which prescribed decontrol of agricultural prices, ordered price agencies at all levels to increase pork prices, which had previously been fixed by command, to a new "guided price level." This hike triggered increases in other animal food prices. All of these increases stemmed primarily from a rise in production costs and from a shortage in supply of these goods.

B. Characteristics of the Current Animal Food Price Management System. (1) Of all animal foods, only the price of pork is controlled by the state, which actually focuses only on the pork sold by food companies. The state uses control of these latter prices to influence market prices of pork and other animal foods. (2) When the "guidance prices" employed by food companies fall below these companies' costs, the state gives the firms loss subsidies. (3) Areally speaking, pork prices have been completely decontrolled in medium and small cities and in localities below the county level and are subject to control only in big cities, particularly the three municipalities of Beijing, Tianjin and Shanghai. Thus this study will focus on measures to deal with pork prices in large cities.

II. Changes in the Costs of Animal Foods, 1978-1985

The following tables compare grain and pork production costs and list the three components of animal food sales prices.

Table 1. Grain Production Costs, Procurement Prices and Net Profits

Year	Material Costs	Labor Costs	Total Costs	Price	Net Profits
1978	13.18	14.72	27.88	25.90	-1.98
1979	14.08	12.10	36.18	30.86	4.66
1980	14.48	14.88	25.86	30.86	5.0
1981	15.32	12.72	28.04	36.66	8.62
1982	14.88	10.24	25.12	36.66	11.54
1983	14.68	8.86	23.54	36.60	13.06
1984	15.04	12.18	27.20	35.00	7.8
1985	16.02	11.46	27.48	41.48	14.10
Average Annual Growth Rate (%)	2.83	-3.53	-0.2	7.0	34.5

(Consolidated average price of corn, soy beans, paddy rice and wheat; Unit: yuan/100 kg)

Table 2. Pork Production Costs, Procurement Prices, and Net Profits (Yuan/100 kg)

Year	Material Costs	Labor Costs	Total Costs	Procurement Prices (Yuan/100 Kg)	Net Profits
1978	103.88	14.18	118.07	98.94	-1.06
1979	105.72	20.89	126.59	125.38	20.42
1980	111.53	21.15	132.68	125.30	19.21
1981	121.57	29.47	151.04	127.22	20.32
1982	124.96	27.15	152.07	127.74	16.98
1983	121.16	26.32	147.50	128.52	13.08
1984	133.63	30.09	171.72	147.20	15.57
1985	158.59	32.35	190.94	182.10	36.21
Average Annual Growth Rate (%)	6.23	12.25	7.11	9.11	10.02

Table 3. Sales Prices of Animal Foods (Yuan/Kg)

Year	State Pork Sales Prices	Consolidated Average Price of Animal Foods
1978	16.24	1.460
1979	1.776	1.636
1980	2.222	1.886
1981	2.108	1.960
1982	2.120	1.980
1983	2.186	2.078
1984	2.822	2.540
1985	2.750	2.782
Average Annual Growth Rate (%)	7.56	9.25

From the above data, it is apparent that during this phase earnings on hog raising rose at an average annual rate of about 10 percent, animal food prices increased 9 percent, total hog raising costs climbed 7 percent, grain prices rose by about 7 percent and grain production costs declined by 0.2 percent. Thus the rise in hog raising earnings was greater than the increase in animal food prices, which was greater than the rises in hog raising costs and grain prices, which were greater than the

decline in grain production costs. So the rise in animal food prices from 1978 and 1985 was not due to cost-push but to demand-pull factors. Demand pulled animal food prices upward, and these, in turn, drove grain higher.

III. An Analysis of Supply and Demand for and the Price Levels of Animal Food Products, 1978-1985

Changes in the volumes of production of and demand for animal foods are listed in the following tables.

Table 4. Animal Food Output

Year	No Hogs Slaughtered (Million)	Pork Output (Billion Kg)	Pork Output Per Capita Population (Kg)	Total Output of 6 Animal Foods (Billion Kg)	Animal Food Output Per Capita Population (Kg)
1978	161.10	8.00	7.67	17.815	14.52
1979	187.68	10.01	9.66	19.64	16.59
1980	198.61	11.34	11.15	21.688	18.73
1981	194.95	11.88	11.07	22.821	19.07
1982	200.63	12.72	11.75	25.099	20.78
1983	206.61	13.16	12.34	26.743	22.04
1984	220.47	14.44	13.01	30.438	24.37
1985	238.94	16.495	13.99	34.941	27.29
Average Annual Growth Rate (%)	5.79	8.67	8.9	10.55	9.43

Table 5. Demand for Animal Foods (Yuan)

Year	National Income Per Capita	Per Capita Cost of Living		Expenditure on Animal Food		Expenditure on Pork	
		Income	Expenditure	Expenditure	% of Living Expenditure Income	Expenditure	% of Living Expenditure Income
1978	315	196	155	21.2	10.8	12.5	6.4
1979	346	225	179	27.2	12.1	17.2	7.6
1980	376	256	216	35.4	13.8	22.6	8.8
1981	396	279	243	37.4	13.4	23.4	8.3
1982	423	300	272	41.2	13.7	25.0	8.3
1983	464	327	308	45.8	14.0	27.0	8.2
1984	547	368	345	61.1	16.6	36.7	9.9
1985	656	501	469	75.9	15.2	38.5	7.7
Average Annual Growth Rate (%)	11.0	14.3	17.1	20.00			

These data show that per capita production of animal foods during this phase rose by 9.43 percent a year, per capita national income climbed by 11 percent, per capita costs of living increased 14.3 percent, and per capita

expenditure on animal foods leaped 20 percent. Thus the rise in per capita animal food production was less than the increase in per capita national income, which was less than the per capita rise in costs of living, which was

less than the increase in per capita consumption, which was less than the rise in per capita expenditure on animal food. This is why animal food prices rose by 9.25 percent, which fact provides further evidence that the rise during this period was due to demand pull. Prices are now higher than production costs.

Why, then, do food companies still suffer losses under current prices? Is it that these prices, though higher than production costs, have yet to catch up with marketing costs? In answering this question, we must not overgeneralize, because at current prices individual vendors are showing profits in the marketplace. Surveys show that these vendors earn about 20-30 yuan per hog, deal in 100-200 hogs each year per person, and thus make 4,000-6,000 yuan per annum. Food company red ink comes from two sources. First are policy losses. To stabilize markets, these companies must keep some pork in cold storage, and this pork is high in costs but fetches lower prices, which results in losses for the firms. These operations are necessary for macroscopic control purposes, so losses from them must ultimately be defrayed by the state. The second source of food company red ink

is operational losses. The management systems of these firms are plagued by many problems, such as the lack of independence of basic level units, the practice of eating out of the big pot, a lack of initiative, the great increase in costs caused by the large number of retirees drawing pensions from the firms, and the fact that the firms' sales volume is not sufficient to maximize economies of scale. Combined, these two types of losses make animal food prices decidedly lower than these firms' costs of marketing the products. To resolve this problem, we must reform food company management systems.

IV. Estimates of National and Large-City Supplies of Meat in 1990

A. The Bases of the Estimates. The estimates for meat supply in 1990 are based on three factors: (1) the supply of feed grain; (2) change in the output mix among animal foods, and how feed grain is distributed among these products; and (3) the grain conversion rate of each animal food product. The following tables, which are based on the average annual increase of various indicators between 1978 and 1985, show the estimated levels of these three factors for 1990.

Table 6. Grain and Feed Supply

Item:	Area Sown to Grain (Billion Mu)	Per Unit Grain Output (Kg/Mu)	Total Grain Output (Billion Kg)	Population (Billion)	Per Capita Supply of Grain (Kg)	Total Feed Grain Supply (Billion Kg)
1990	1.65	260	429.0	1.11	386.5	119.25

Table 7. Change in the Mix of Animal Food Output (%)

Item:	Pork	Eggs	Milk	Aquatic Products	Poultry	Beef and Mutton
1990	43.58	18.85	3.19	23.3	7.53	3.54

Table 8. Feed Conversion Rates of Animal Foods

Animal Food:	Pork	Eggs	Milk	Poultry	Fresh Water Bred Fish
Expenditure of Grain (in Kg) Per Kg of Output	7	3	0.3	3	1.5

B. The Results of the Estimates. Assuming feed grain is distributed to each animal food at a rate equivalent to the product's share in total animal food output and taking into account the grain conversion rate for each product, we estimate that animal food output will total 36.135 billion kg, for a per capita average supply of 32.55 kg, in 1990. This is the average level for urban and rural areas. Supply in large cities has traditionally been 1.6 times that of the urban-rural average and thus will probably run about 50 kg in 1990.

V. Estimates of 1990 Demand for Meat Products in Large Cities

A. Large-City Per Capita Expenditure on Meat. The per capita living expenditure income of residents of Beijing, Tianjin, Xian, Nanjing, Wuhan, Chongqing and other

big cities is approximately 1,000 yuan. If this income continues to rise at the average annual rate posted during the Sixth 5-Year Plan, it will reach 1,600 yuan or so by 1990.

Meat consumption expenditure by large-city residents is equal to 15 percent of their total per capita living expenditure income, and this is with controlled prices. In Guangzhou, where meat prices have been fully decontrolled, expenditure on meat accounts for 22 percent of residents' real living expenditure incomes. Thus, taking into account the effects of complete price decontrol, increases in living expenditure income and the decline in the ratio of meat consumption relative to total living expenditure income, we estimate that meat expenditure will equal about 20 percent of total per capita living expenditure income in 1990, a tolerable level at which per capita expenditure on animal foods will work out to 1,600 yuan $\times$ 20% = 320 yuan, or about 300 yuan.

B. 1990 Per Capita Demand for Meat in Large Cities. Given the income elasticity exhibited in big-city demand for meat between 1978 and 1985, during which time incomes doubled and demand for meat increased by 50 percent, big-city annual demand for meat should be about 50 kg in 1990.

Nationally, per capita consumption of meat rose at an annual clip of 2.5 kg between 1978 and 1985. Thus at this rate, big-city annual per capita consumption of meat will also rise from the current 40 kg to about 50 kg by 1990. This level of demand is basically in line with supply levels that will be achieved by that time.

VI. Estimates of Large-City Animal Food Price Levels in 1990

A. Levels That Would Obtain If Price Controls Are Retained. Under the current system of controls, prices are rising at the same annual rate they did between 1978 and 1985 and will not exceed this level in the future, because consumption funds have been brought under control during the Seventh 5-Year Plan and the base figures for computing price increases are the real prices of large cities in 1985. Thus we estimate that in 1990 the consolidated average price of animal foods will average 3.94 yuan per kg, which means that meat prices will run about 4 yuan a kg, if prices are not decontrolled. Pork prices will be a little higher than the latter level, because they are higher than the consolidated retail price of all animal foods.

B. Price Levels If Decontrol Is Effected. In computing 1990 price levels under conditions of decontrol, we must take into account two factors—how much money big-city residents on average will be able to spend on meat, and supply and demand for meat. According to the analysis advanced above, big-city resident meat expenditures will average about 300 yuan and per capita supply will reach 50 kg or so in 1990, which means that supply and demand will basically be in line. Under these conditions, big-city meat prices will average about 5 yuan a kg, a tolerable level which means that these prices will have risen at an average annual rate of 16 percent between 1985 and 1990. Meat prices in other areas of the country will be lower than these levels. In sum, 1990 big-city meat prices will be 50 percent higher if they are decontrolled than they would be if they are not decontrolled, and expenditure on meat will equal 25 percent of per capita living expenditure income if prices are decontrolled, 20 percent if not.

VII. Countermeasures

Continued control of large-city pork prices will impede efforts to invigorate circulation, make it impossible to reduce state subsidies and cause output to fluctuate wildly, because controlled prices are unresponsive to changes in the production costs of pork and of animal foods generally. Gradual decontrol of these prices, therefore, ought to be adopted. Specifically, while retaining

current big-city pork supply programs, we should complete preparations for price decontrol and gradually decontrol prices so that all controls may be lifted by 1990. Preparatory work includes: (1) developing regional specialization in hog raising and promoting hog raising in key provinces so as to ensure that supply meets the levels required for complete decontrol of pork prices in all large cities throughout the nation; (2) accelerating expansion in the production of aquatic products, chickens, milk and other animal foods that have high feed-conversion rates; lowering the ratio of pork in total food supply; and reducing the impact of pork prices on aggregate meat prices; (3) promoting development of multichanneled circulation, especially in Beijing, Tianjin and Shanghai; expanding agricultural trade markets and the number of individually run butcher shops, lowering the share of state-run meat commerce in total meat trade, and reducing the impact of the prices of state-marketed meats on overall meat prices; (4) reforming the management systems of state-run food companies, separating administration and enterprise, making lower units responsible for their own accounting, instituting contract management, eliminating monopolies, initiating competition, improving management, and reducing dependence on subsidies and on the state's big pot; (5) strengthening state macroscopic market regulation and maintaining pork reserves and continuing to buy up and sell off pork stocks so as to stabilize market supply and even out seasonal supply fluctuations. Guangzhou's experience suggests that, if food companies keep reserves equal to one-third of total pork supply, aggregate market pork and animal food supply and prices will be stabilized; (6) strengthening and improving market control measures and preventing price gouging, speculation and profiteering. Temporary, short-term price ceilings can be employed in markets, so that meat prices are capped whenever they exceed 6 yuan a kg; (7) strengthening lateral ties among provinces and municipalities and promoting interregional flows of pork and other meats. Large cities and major hog producing areas should establish solid procurement-sales relations; (8) spreading quality- and seasonal-price differentials out wider, hiking pork prices several times, and gradually reducing subsidies to food companies; (9) within large cities, prices should first be decontrolled in distant suburbs before they are decontrolled in downtown districts; and among these cities, Beijing's prices should be decontrolled last, Shanghai's and Tianjin's next to last, and all others first.

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Hubei Farm Loans

40060426c Beijing *NONGMIN RIBAO* in Chinese
3 Jun 88 p 1

[Excerpt] From January to the beginning of May, agricultural banks and credit cooperatives in Hubei Province provided 3.305 billion yuan in farm loans, a net increase of 570 million yuan over the same period in 1987.

Jiangsu Grain Output

40060426b Nanjing XINHUA RIBAO in Chinese
2 Jun 88 p 1

[Excerpt] Estimated gross output of summer grain in Jiangsu Province is 21.3 billion jin.

Pig Production in Jiangxi Analyzed

HK2107090088 Beijing JINGJI YANJIU in Chinese
No 5, 20 May 88, pp 43-48

[Article by Wang Chengde (3769 6134 1795) of the Rural Development Research Center of the State Council, written in December 1987, revised in April 1988: "Why Is the Road of Pig Production Becoming Increasingly Narrow?—An Inside View of Pig Production in Jiangxi Province"]

[Text] Jiangxi is one of the centers of grain and pig production in China. In the second half of 1987, there was a sudden drop in the supply of pork. As pig prices soared, the local financial departments found themselves paying substantially more in price subsidies, and sales agents like the foodstuff companies sustained heavy losses. The urban inhabitants, particularly the residents of Nanjing, could not buy any pork even if they started queueing up at midnight. The producers, on the other hand, were reluctant to raise pigs because the returns were poor. There was a lot of discussion on the question of pig production, but no conclusion was reached. What is the situation in pig production? Considering the country-wide shortage of pork, this issue does merit some deep thought.

I. The Basic Situation

The basic trend of pig production in Jiangxi in recent years has been one of continuous increase. The figures for pig production in the whole province between 1980 and 1987 are as follows:

Unit: 10,000 heads

Year	No. raised	No. on hand	No. sold	No. of Sows on hand
1980	1781.00	1080.0	700.0	64.8
1981	1720.00	1006.6	714.3	61.6
1982	1736.00	1023.3	713.7	68.7
1983	1815.00	1079.4	736.5	74.8
1984	1941.60	1138.8	802.8	77.3
1985	2113.83	1232.51	881.32	86.0
1986	2331.94	1344.13	987.81	91.3
1987	2377.00	1347.00	1030.00	89.3

(Note: The figures for 1987 are estimates only)

The fundamental reasons for the sustained growth of pig production in Jiangxi are as follows: First, the steady development of grain production over the last few years has provided the necessary conditions for pig raising. Second, because industries are not well-developed in Jiangxi, and town and township enterprises are only in their infancy, the peasants have to rely on fish breeding and poultry raising, and particularly pig raising, as their principal means of increasing their income. Third, as

Jiangxi Province has no major chemical fertilizer factories, pig raising to a large extent constitutes the main source of fertilizers for peasants who rely on farming for their living. Fourth, subsequent to the rise in the level of the peasants' income over the last few years, the peasants' own consumption of pigs has increased.

II. Discordance in the Development of Pig Production

Jiangxi Province has fine conditions for developing pig production, but over the last few years a situation which is not beneficial to bringing into play these superiorities has been formed.

1. Producer behavior:

Since 1981, grain output in Jiangxi Province has been steadily growing by a big margin. Total grain output of the province rose from 22.515 billion jin in 1978 to 28.175 billion jin in 1982, 29.209 billion jin in 1983, and 30.98 billion jin in 1984. This provided a catalyst for developing pig production.

On 1 April 1985, Jiangxi abolished the unified or fixed state purchases of pigs and opened up its pig market. This gave a further boost to the development of pig production. Once pigs became a kind of marketable commodity, the hidden tax attached to unified or fixed state purchases began to disintegrate. Consequently the procurement price of pigs soared from 0.62 yuan to between 0.9 yuan and 1 yuan per market jin. Subsequent to the opening of the market, Jiangxi pigs were sold to Guangdong and Fujian. This also induced an increase in pig prices. These two factors contributed to a substantial increase in pig production.

2. Consumer behavior:

Increases in the procurement price of pigs are welcome news to the producers, but bad news to the consumers. The real income of the urban residents has indeed increased substantially over the last 9 years. However, because of the income structure of the city people, who are paid low wages but given good welfare benefits, together with the psychological deterrence of a "price view" which has been built up over the years, the urban inhabitants have found it difficult to accept the increase in pork prices (including necessary price increases to reflect the cost of pig production) since the opening of the market. This has created an insurmountable "price Bermuda" which the government finds difficult to transcend when it makes decisions.

3. Government behavior:

The freeing of the procurement price but not the selling price has inflicted heavy losses on those foodstuff companies selling pork. Foodstuff companies throughout Jiangxi suffered losses amounting to 20.61 million yuan in 1985, 22.86 yuan in 1986 and 35.33 yuan in 1987 in their pork business. The losses would have been even greater if we take

into account the disparity between the sale of grain sold at parity price and the exchange of fertilizers for pigs. Foodstuff companies rely on subsidies from governments at different levels to make up for their losses. They were subsidized 17.57 million yuan, 9.09 million yuan and 31.88 million yuan respectively by the provincial financial authorities in the 3 years from 1985 to 1987.

The market price of grain began to spiral up in the second half of 1985. This, together with the consumption inflation in the cities, which had non-staple food products as its main component, encouraged the sustained increase in the price of pigs. The local financial departments found their burden heavier and heavier as the difference between procurement and selling prices grew. Under the circumstances, most counties and some of the financially weak local governments in Jiangxi were forced to "make a reckless move" by gradually freeing the selling price of pork in the hopes of closing the gap between the procurement and selling prices. In the end, however, they found themselves safely ashore. In Jiangxi province, pig production is basically stable where the markets have been opened. Nanchang and some of the other big cities which tried to hold the fort were forced to gradually reduce the scope of their subsidies because of financial difficulties. This resulted in a drop in the rate of subsidy payment. The sale of grain at parity price in exchange for the procurement of pigs also slipped back year after year (from 320 million jin in 1985 to 120 million jin in 1986 and 22.5 million jin in 1987).

4. Operator behavior:

In a situation where the price parity between the procurement and selling prices of pigs was growing and government subsidies were being cut, the position of the foodstuff companies became very delicate. In 1985 when the pig markets were first opened, the foodstuff companies as government monopolies suddenly found themselves being thrust into the midst of market competition. For a while things looked really bleak for them and many of them were paralyzed. However, a good number of these companies were able to strengthen themselves amidst the storm and developed into new-style operators with some sense of risk-taking. As the price parity between procurement and selling prices grew, the local governments were unable to fully compensate for the disparity between procurement and selling prices while keeping prices stable in the cities. This caused the foodstuff companies to transform themselves into a special form of semi-government and semi-business operations. As the price of pigs rose, the foodstuff companies repeatedly demanded that the government increase its subsidies. There was a strong warning beneath their demand: They would further reduce the handing over and supply of pigs unless their subsidies were increased. The local financial departments were thus squeezed like toothpaste and had to repeatedly increase their subsidies to the foodstuff companies. Since the second half of 1986, most foodstuff companies in the province have been exempted from business tax

and product tax. In 1986 subsidies for losses were registered at 25.58 million yuan, while in the January-November period of 1987 they amounted to 35.96 million yuan. Although the government kept increasing its subsidies, it was unable to ensure the supply of pigs at parity price and to increase and balance the number of pigs handed over. The reason was that the existing method of compensation made it very difficult to determine the corresponding subsidies to the number of pigs handed over. The foodstuff companies had three alternatives to choose from: If they sell the pigs locally, they could maintain a rough balance between procurement and sales. If they hand over the pigs to Nanchang, they would have to sustain a loss of between 20 yuan and 30 yuan for each pig. If they sell the pigs to Guangdong, they could make a profit of between 20 yuan and 30 yuan for each pig. The great disparity of interests induced the foodstuff companies to try to reduce the number of pigs handed over and make a token gesture of supplying the local markets with some pork at parity price while concentrating their efforts on organizing exports. During the January-November period of 1987, the regional foodstuff companies procured a total of about 236,042 heads of pigs, 190,673 heads or 81 percent of which were exported. In addition, the foodstuff companies also urged the government to grant them a larger measure of the business monopoly. As far as the unorganized individual operators were concerned, once business rivals like the vegetable companies were forced out of the market, the foodstuff companies with their procurement and sales network throughout the urban and rural areas would have a virtual monopoly over the rural households who were engaged in decentralized production. The foodstuff companies would thus have quite an ability to weaken the market and push down pig prices. During the January-November period of 1987, the procurement price paid by the foodstuff companies for pigs was on average 9 fen per jin below the selling price at the rural fairs. After deducting the procurement cost and the price disparities in the exchange of pigs for grain and fertilizers, the foodstuff companies still short-changed the rural households by 5 yuan per pig.

5. The clash of interests in the development of pig production:

Under the circumstances outlined above, the development of pig production was caught in an awkward situation. From the angle of demand, tough measures designed to keep pig prices low in the urban areas would inevitably boost consumption. First of all, the per-capita consumption of pork in the cities increased rapidly. This was not simply because the income level of the urban inhabitants had risen considerably in the past few years, but also because the price of pork seemed quite cheap compared to the price inflation in other kinds of farm and sideline products. For some time, there was the talk that in Nanchang the rich ate vegetable while the poor ate pork. Secondly, in a situation where the county seats and villages and more and more places in the surrounding provinces had lifted the restrictions on pork prices partially or completely, the fixed price of 1.45 yuan per jin

in Nanchang became virtually the lowest in the whole country. The difference in gains induced a pig outflow. There was even a massive flow back to the rural areas. From the angle of supply, the increase in market price of grain and the further development and expansion of the markets would inevitably widen the disparity between parity price and market price. This means that the peasants would want to raise more pigs, but would be unwilling to sell them at parity price. This made it increasingly difficult to ensure the procurement of pigs to supply the cities at parity price. From the perspective of the sales agents, the maintenance of a low price policy in the cities would dampen the initiative of the foodstuff companies to hand over pigs or to supply them at parity price and induce them to compete with the individual operators in exporting pigs for profit. The discordance between supply and demand further forced up the market price of pigs and compelled the government to give additional subsidies. A malignant cycle was thus formed.

III. The Road of Pig Production Is Becoming Increasingly Narrow

1. Blockade the market—An attempt to escape the dilemma:

The above-mentioned situation in pig production brought great pressure to bear on the local governments. In economic terms, the ever-increasing subsidies were too much for the already hard pressed financial departments. In political terms, there was growing resentment among the urban inhabitants against the rising pork price. As far as the local governments were concerned, the massive outflow of pigs to other provinces meant a drain of resources. As a countermeasure, Jiangxi Province imposed a market blockade at the end of 1985. Customs barriers were set up along its boundaries with Guangdong and Fujian and exported pigs were charged 15 yuan per head "passage fees", which were also called pig development funds. In actual practice, the fees were kept by whoever collected them. This induced the counties, even some of the townships, to follow suit. They even vied to raise the fees, some charging as much as 40 yuan per head. A province-wide net to "catch" pigs en route to other regions was thus mounted. Although a small number of individual operators still managed with much difficulty to ship pigs out of the province, the channels for the sale of large numbers of pigs to other provinces were blocked.

2. The development of a situation where it is difficult to sell pigs:

The intention of Jiangxi Province in imposing the market blockade was to stop the outflow, force down market price and ensure the supply of pork in the province, primarily cities like Nanchang, at parity price. However, things do not always turn out as we wish. Behind all these outcries from the cities and the local financial departments, the actual situation was that the pig production peak subsequent to the sluggish sale of grain in 1984 had just arrived and there was inducement from a half opened market. The blockade of the market at this juncture when Jiangxi pigs were delivered to

the slaughter-houses immediately led to a fall in demand, and prices plummeted as a consequence. In December 1985, the selling price of pigs in the province was 0.15 yuan lower than what it was the month before. This sudden drop in price came as a heavy blow to the pig farmers. The small peasants were not in a position to cope with such losses. When the pigs are ready for the market, they have to be sold as quickly as possible, for it is very costly to keep them. Households specializing in pig raising were particularly eager to sell their pigs. If the foodstuff companies, as the biggest customer of pigs, could step up their work of procurement and deliver pigs to various sales outlets throughout the province at this juncture, the crisis would have been greatly alleviated. But instead the foodstuff companies "poured oil over fire." The allocation price in such major marketing areas as Nanchang and other cities had been quite low all along. Even after the blockade of the market and the plummeting of market prices, it was not very profitable to allocate and transfer pigs to Nanchang. Furthermore, when the foodstuff companies of Nanchang and other cities saw the fall in demand, they were in no hurry to accept deliveries. In December 1985, the state procurement price of pigs was 4.25 fen per jin below the November price. Thus the foodstuff companies in the pig producing areas found no inducement to hand over their pigs. Finding their source of revenue cut, foodstuff companies which used to rely on the export of pigs as their major source of profits took countermeasures by marking down the grades and prices of their pigs. The procurement price of pigs in Nankang county was at one stage forced down to 0.80 yuan per jin. There was difficulty selling pigs throughout the whole of Jiangxi.

3. The market blockade cannot solve the problem: The problem cannot be resolved simply by imposing a market blockade. First of all, it would inflict heavy losses on the producers. The difficulty in selling pigs induced by this blockade lasted for nearly 6 months. According to preliminary estimates, about 5 million pigs were delivered to the slaughter-houses during this period. At the conservative estimate of a loss of 15 yuan per head, total losses incurred would be in the region of 75 million yuan. For the Jiangxi peasants whose per-capita income remained at the level of 350 yuan and who relied on pig raising for their main source of income, this was a heavy loss. This resulted in a drastic decline in the peasants' enthusiasm for pig raising. Sows were slaughtered or castrated in large numbers. According to a survey conducted by the Nankang County Bureau of Industry and Commerce, between 10 and 15 sows were slaughtered in the county each day. The price of sucklings also plummeted to as low as 0.70 yuan per jin, less than half the normal price. As far as the consumers were concerned, the benefits of compulsory low prices were short-lived. Because there was not much inherent incentive for the foodstuff companies to allocate and transfer pigs to the big cities and major marketing areas, there was little improvement in the supply and price of pork in Nanchang and other cities. Not long after, they had to swallow the bitter fruit of a drop in production and supply. Neither were the local governments able to benefit from such a measure. The amount of "passage fees" collected was not much to begin

with. After this and that deduction, the amount actually delivered to the local financial departments was negligible. On the other hand, because their source of revenue through export had been cut, the foodstuff companies demanded more subsidies for their pig business. As a result, Jiangxi Province was forced to call off the blockade in the first half of 1986.

4. Fluctuations in the grain and pig cycles:

While pig production slowly recovered following the opening of the market, the shadow of cost increases began to loom larger and larger. With the steady increase in the number of livestock raised, the demand for grain also grew. Against this backdrop, there had been a regulatory contraction in production of grain since 1985. Fluctuations in supply and demand caused the market price of grain to soar. Along with this, the price of feed was also forced up and the supply of feed sold at parity price was reduced. Under the existing market structure and demand factors, an increase in cost would quickly produce an adverse effect on the returns of the pig farmers, particularly the specialized pig raising households that mainly relied on the market for their supply of feed. The upward readjustment in the procurement price of major varieties of grain in January 1987 resulted in an even bigger increase in grain price at the rural fairs. Statistics show that feed prices went up by about 30 percent between 1986 and 1987, making pig raising profitless, if not a losing business. Large numbers of specialized pig raising households found it almost impossible to carry on. Some even wanted out. The number of specialized pig raising households in the province dropped by 40 percent. In Ganzhou prefecture, one of the major pig producing areas of Jiangxi, the number of large-scale pig raising households dropped from 4,800 several years ago to under 1,800. The drop in the number of specialized households had an important impact on the availability of pigs. What merits attention is that for a length of time, these specialized households that wanted to wash their hands of this business were anxious to sell their pigs on hand. Because of the excessively high price of grain, a considerable number of peasant households even sold their feeder pigs (pigs not fully grown). These created the false phenomenon of an abundant supply of pigs. This, coupled with the fact that some of marketing units like the foodstuff companies were forcing down the procurement price and even refusing to take in any pigs, brought about a continuous drop in the price of pigs and a continuous increase in the price of grain at the rural fairs in the first 6 months of 1987. These amplified effects of the market forces sent out further signals that resulted in the curbing of production and the boosting of consumption.

In June 1987, sudden changes occurred in the pig market. The average price of pigs at Jiangxi's rural fairs, which had been steadily slipping from 1.14 yuan per jin in August 1986 to 1.05 yuan per jin in May 1987, made a sudden upward turn in June and rose by 4 fen per jin to 1.09 yuan. The price soared to 1.21 yuan in July and 1.3 yuan in August. The upward trend continued, reaching 1.386 yuan in November. Although this fluctuation had been brewing for some time,

its eruption was touched off by the export and handing over of pigs. While the steady rise in the price of grain which started in 1986 had an inhibiting effect on pig raising throughout the country, the upward readjustment in the price of major varieties of grain in January 1987 imposed even greater inhibition on the development of pig production. Jiangxi as a grain-producing province was much slower in its response to this situation than the other provinces. Since March and April 1987, Guangdong, Fujian and other provinces had already started procuring pigs from Jiangxi in growing numbers. At this time, the normal slack season in the demand for pigs was just over and normal purchases were starting to grow. In their purchasing activities, the purchasers found to their alarm that fewer pigs were available and sold on the market. Fluctuations in supply and demand forced market prices up and dispelled the blind optimism which prevailed among the consumers and operators during the last 6 months. They began to make pessimistic forecasts about the supply situation and even started to increase hoarding for consumption purposes and stock up on pigs for allocation and transfer. This further widened the gap between supply and demand and forced prices up. The gap between the increase in market prices and the state procurement price quickly widened. This further induced the foodstuff companies to slash the number of pigs to be handed over and to step up their export arrangements. With overall supply and demand in the whole province strained as it was, the situation in big and medium-sized cities like Nanchang was even more strained. A malignant cycle thus set in in the second half of 1987: The gap between supply and demand forced prices to go up at the rural fairs, which in turn widened the disparity between the procurement price paid by state-owned companies and by the rural fairs. This gave an impetus to export and inhibited the handing over of pigs to the cities, thus further widening the gap between supply and demand in the big cities. The supply of pork sold at parity price in the cities was thus reduced and the price of pork at the urban fairs soared. In order to redress the discontent of the urban inhabitants, the local governments were forced to increase their subsidies.

5. The dilemma in developing pig production:

Seeing that the local governments were unable to bear the pressure of huge subsidies, the Jiangxi Provincial Government issued Document No. 105 on 26 October 1987, reintroducing the measure of market blockade. From the lesson learned before, everybody knew that the blockade would not be able to solve the problem. But there seemed to be no other alternative. Document No. 105 met with strong resistance the moment it was implemented. Once again people began slaughtering their sows. The market price of pigs fluctuated, a situation strongly resented by the pig farmers and the grassroot cadres. According to survey results, the previous situation where people had problems selling their pigs might repeat itself if stringent measures were taken to enforce the blockade. (1) The continuous spiraling up of pig prices in the second half of 1987 produced a strong impetus, boosting a drastic rise in the price of sucklings from 1 yuan per jin in the first six months to over 2 yuan per jin. This reflected a marked increase in

the number of pigs raised. (2) The impact of the increase in grain price in early 1987 was beginning to turn from negative to positive. The record grain output of 31 billion jin in 1987 created excellent conditions for the development of pig production. (3) The shortage of chemical fertilizers in 1987 also sounded the alarm for peasants to raise more pigs in order to accumulate manure. (4) The problem of pig production had aroused the attention of the government and prompted it to back up pig production organizationally and in terms of material resources. At the end of 1987, the implementation of Document No. 5 was shelved and the provincial government found itself in a dilemma.

IV Thoughts on Escaping from the Dilemma

Jiangxi Province enjoyed favorable conditions for the development of pig production and the basic trend of pig production over the last few years was indeed one of continuous growth. The problem was that this process of growth was beset with fluctuations and shocks. In particular, the road of pig production seemed to be becoming increasingly narrow in recent years, so much so that it could go on no longer. The dilemma in practice compelled us to give this problem some deeper thought.

1. The market mechanism must be fully introduced to maintain a balance between production and consumption.

There are many complex contradictions in the production and sale of pigs, but I feel that the key problem lies in that the relationship between production and sales not being well-coordinated. In general, we have already decided to use the market as the coordinating force in basic economic relations, but in terms of pigs, half of the load of market mechanism is still shouldered by the government: purchase price has been freed, but selling price has not been freed. If the government failed to meet its task in this respect, the producers would be the first ones to bear the brunt, but neither would the consumers be spared. The dilemma in the development of pig production in Jiangxi Province shows that only by fully introducing the market mechanism will there be a way out. The government should abstain from this and let the consumers and producers exchange information directly and complete the production-consumption process in the market. This should be a reasonable and effective alternative.

Besides the coordination of interests between production and sales, a more crucial problem that has to be resolved in the development of pig production is the allocation of social resources. In simple terms, there are fixed economic rules as to how many pigs we should raise in order to have so much to eat. In recent years, the supply of pork at low prices has induced a drastic inflation of consumption, which has in turn forced prices up. If this goes on, we might miss the golden opportunity to develop the national economy. In a country like ours where resources are subject to strong constraints, we cannot but consider how much grain we can

spare for pig raising and how much land we can spare for growing grain. The urgency to perfect the mechanism for developing pig production must be understood from this high plane.

2. What is the people's bearing capacity?

In terms of basic direction, most people may subscribe to the above-mentioned line of reasoning, but they might stress the fact that conditions are not yet ripe. When will conditions be ripe? This merits some deliberation. The situation in Jiangxi can be used to illustrate our point. From the perspective of the bearing capacity of the urban inhabitants, the selling price of pork has been freed in the whole of Jiangxi, with the exception of a small number of cities and industrial areas like Nanchang, Jiuchang and Jingdezhen. Per-capita income in areas where price has been freed happens to be lower than in the big cities; per-capita pork subsidies are also low. Since there has not been any notable fluctuation in pig production in recent years, pork prices in these areas have remained lower than that in Nanchang on the average. During the January-November period of 1987, per-capita pork subsidies were registered at 70 yuan, a monthly average of 6.38 yuan per person. There should not be too much problem if we were to turn these subsidies into consumption subsidies fund or insurance fund for the freeing of selling price in the market.

3. What is more conducive to the stability and development of pig production?

Some people turn pale at the mere mention of fully opening the pig market for fear that this would lead to market fluctuations and the loss of macroeconomic balance. In answer, we could perhaps first cite the above-mentioned example and point out to them that the situation is relatively stable in places where prices are freed. In the early stage of the development of a commodity economy, there are no doubt more fluctuations and higher costs involved in bringing about an equilibrium. This is particularly the case with special markets for farm and sideline products. However, if the conditions for normal growth are present, these extraordinary fluctuations and costs should gradually diminish. Moreover, as far as these fluctuations are concerned, their range and duration should be quite regular. Their cause should be easily identifiable and easy to explain, and they should be easy to regulate and control [tiao kong 6148 2235]. The key problem is that there is a need for the markets to grow on the one hand, but on the other hand the government is reluctant (or afraid) to relax its grip completely. The government took the growth and operation of the markets upon itself (this is perhaps necessary a couple of years ago as a transitional measure). When it could no longer bear the weight, it shared the burden with the foodstuff companies, feed companies, grain bureaus and so on. Actually, as the mainstay of the market economy, these units should have severed their umbilical cord with the government and speeded up their growth into new mainstay business operators through market competition. However, in an effort to extricate itself from its own dilemma, the

government was compelled to grant them supraeconomic privileges so they could avoid competition by treading between the two tracks of the market and planning and therefore work to their advantage. This is a tendentious problem in the process of expanding the pig market as well as the market for principal farm and sideline products. In this sense, the complete opening of the pig market is the right remedy for ironing out the fluctuations and promoting development (markets for other farm and sideline products should also be fully opened step by step where conditions permit). Even during the transitional period when not all markets can be opened, steps must be taken to resolve as quickly as possible the problem of dual status of some of the mainstay business operators in the rural market and strictly confine the functions of regulation and control [tiao kong 6148 2234] and mandatory administrative orders within the non-market mainstay of the government system. 4. Comply with the demands of the commodity economy and handle the regional economic relations according to circumstances:

How should areas with different levels of economic development, policy constraints, industrial structure and structure of consumption demand meet the needs of a growing commodity economy and coordinate the relations between economic growth and allocation of benefits? This question which merits our attention is saliently reflected in pig production in Jiangxi. There are the following two typical views on the export of pigs in Jiangxi. The first view is that the Jiangxi government subsidized its people with money and grain for raising pigs, but the pork is consumed by the people of Guangdong. The second view is that a full-fledged opening of the market might further aggravate the outflow and force prices up. As things now stand, there is indeed a sizeable export of pigs from the province. This is partly because the income and consumptions are higher in Guangdong and Fujian than in Jiangxi, but the main cause is the disparity in gains resulting from the artificial control of the selling price of pork. If this crippled state of procurement and sales is to continue, the afore described cycle would further widen the disparity between the export and the internal allocation and transfer of pigs and aggravate the outflow. When the government could bear the burden no more, it would again close the market. This would harm the producers but would not effectively improve pork supply in the province, particularly in the cities, for a sustained period. If we would fully open the market and bring prices into better balance, we would be able to achieve the following two-pronged objective: First, the plunge in profits from exports would help curb the outflow. Second, sales of pigs within the province and the handing over of pigs would no longer mean a loss of money; instead they would generate normal sales returns and thereby improve the supply situation in the big cities of the province. Both would precipitate a turn

for the better in the supply of and demand for pork within the province. As to the claim that pigs raised by the people of Jiangxi are consumed by the people of Guangdong, we should not only look at it from the angle of consumption. Pig farmers do not raise pigs merely to supply the needs of the city folks. They do it in order to develop the economy and increase their income. The export of pigs is a invaluable market condition which will help the Jiangxi peasants become well-off and develop the economy. From the perspective of modern economic development, it is conducive to the elimination of administrative barriers, the smooth flow of commodities and the handling of regional economic relations according to circumstances and in line with the principles of mutual benefits and stability.

Liaoning Feed Industry

40060426d Beijing JINGJI CANKAO in Chinese
11 Jun 88 p 2

[Excerpt] For the past two years feed output in Liaoning Province has exceeded 1 million tons, and planned output for 1988 is 1.2 million tons. At present, Liaoning has 346 feed mills that produce over 1,000 tons, and 38 feed mills that produce over 10,000 tons. The livestock industry in Liaoning needs 7 million tons of feed a year, but the province can only meet 17 percent of demand now.

Yunnan Grain Area

40060396d Kunming YUNNAN JINGJI BAO in Chinese 11 May 88 p 1

[Excerpt] In 1988 Yunnan Province plans to sow 51 million mu to grain, of this amount 37,800,000 mu will be sown to summer grain. The grain area is 800,000 mu less than 1987. In 1987 Yunnan imported 2 billion jin of grain from other provinces.

Yunnan Sugarcane Area

40060426a Kunming YUNNAN JINGJI BAO in Chinese 4 Apr 88 p 1

[Excerpt] In 1988 Yunnan Province plans to sow 1,400,000 mu to sugarcane and gross output is estimated at 6,250,000 tons.

Yunnan Pig Procurement

40060396e Kunming YUNNAN JINGJI BAO in Chinese 4 May 88 p 2

[Excerpt] In the first quarter of 1988, Yunnan Province procured 517,600 pigs, an increase of 169,900 over the same period in 1987. In the first quarter, Yunnan sold 484,500 pigs, 73,400 less than the same period in 1987. At the end of March, there were 779,300 pigs in stock, a 30.36 percent increase o

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