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NORTHEAST ASIA

SHIJIE ZHISHI Discusses Tibet, Human Rights Issues

HK020321 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 1, 1 Jan 88 pp 17-18

[Article by Dao Ren [1497 0086]: "Let Facts Answer—Refuting the Fallacies of a Handful of People in the West over the So-Called Tibet Question"]

[Text] Tibet is an inseparable part of China. Tibet's affairs belong to China's domestic affairs. This is a world-recognized fact. However, a handful of people in the West make incessant noise about the so-called Tibet question. They fabricate absurd and groundless arguments. This article is a strong refutation of those arguments.

Recently, a handful of people in the United States and Western Europe have been attracting attention by making noises about the so-called Tibet question.

The story is briefly as follows. On 21 September last year the exiled Dalai Lama issued a "political statement" at an American Congress Human Rights Committee meeting in which he deliberately distorted the situation in Tibet and did his best to defile and attack our motherland. He also tried to divide our motherland by claiming that Tibet is "an independent nation." Almost at the same time, the Dalai Lama clique stirred up a handful of separatists to organize unrest in Lhasa on 27 September and 1 October respectively. They tried to collaborate from within with forces from without to reach their ulterior goal. The Dalai Lama's deeds were refuted by people of insight in the West. The governments of many nations publicly reaffirmed their recognition of Tibet as Chinese territory. However, the Dalai's premeditated and planned separatist activities were ardently supported and encouraged by a small number of U.S. Congressmen. They drafted a resolution in support of the Dalai Lama and rudely interfered in our domestic affairs. In mid-October, the European Council and the parliaments of some West European nations, under the manipulation of a handful of their members, also passed resolutions on the so-called Tibet question interfering with China's domestic affairs. Some of these members talked nonsense during the debates; a few even proposed inviting the Dalai Lama to visit the European Council. The Chinese Government righteously refuted all this and declared the solemn and just stand of the Chinese Government and people.

The reader may ask: Since some foreigners made endless noise about China, what did they actually say? This writer has sorted out the relevant reports by foreign news agencies, read them over again, grouped them into several main points, and would like to "share these remarkable works and discuss their subtleties" with the reader.

First: Tibet is "an independent nation" that "never belonged to China." The reason given is that the Tibetan people are different from the Han people, the former having their own unique cultural legacy, religion, language, and so on and so forth.

If this argument does not have ulterior motives it is at least naive. Anyone with common sense knows that China is a multi-ethnic nation. Besides the Hans, China has more than 50 brother nationalities. Together they are the Chinese. Tibet has been a part of China's territories from the 13th century on. For more than 700 years spanning the Yuan, Ming, and Qing dynasties and the Republican Era, it has always been under the rule of the central government. The history of Tibet as a part of China's sacred territory is longer than American history by 500 years! This is an irrefutable fact of history. To date, no single nation in the world has publicly recognized Tibet as an independent nation. Isn't it lying with eyes open to declare that Tibet "has never belonged to China" and is "an independent nation"?

Second: China is "Hannifying" Tibet. The main reason given for this argument is the so-called mass migration of Hans to Tibet. Some people even spread shocking rumors that Tibet has only 6 million Zang people, but 7.5 million Hans, and that 1.2 million Zangs have been killed, etc., etc.

Such nonsense cannot stand the test of facts.

First, according to statistics, in 1951, the year in which the central people's government and the Tibet Regional government signed the "Agreement on Ways To Peacefully Liberate Tibet," Tibet had a population of 1.1 million. In 1959, the year in which the Dalai Lama fled after engineering a revolt, Tibet's population was 1.206 million. Today in 1987, the population of the Tibet Autonomous Region is 2.02 million, of which 1.93 million, or more than 95 percent of the total population, are Zang people. Han people number only some 73,000, or less than 4 percent of the total population in the region. Moreover, there are about 7,000 members of the Moinba nationality and about 2,000 members of the Lhoba nationality in this region. Obviously it is groundless to say that Tibet had a population of 6 million before and even more ridiculous to say that the Hans killed 1.2 million Zangs. And those who say that there are 7.5 million Hans instead of 73,000 can deceive only the ignorant and naive.

Second, the composition of cadres in Tibet shows that the Zang compatriots are truly their own masters. At present there are altogether over 40,000 Zang cadres and other minority cadres in the entire region, or more than 80 percent of the total number of cadres in the entire region. Of the leaders in the autonomous region's party committee, National People's Committee Standing Committee, government and branch of the Chinese People's Political Consultative Conference, 83.8 percent are of Zang or other minority background. All the

mayors and county magistrates in Lhasa, and the 6 prefectures and the 15 cities (counties) are cadres of Zang background. Minority cadres make up 95 percent of the main leadership at these two levels. At the 6th National People's Congress, Tibet had 19 delegates, of which 15 were Zangs. Can these facts demonstrate any "Hannifying" attempt?

Third, some Han people responded to the Central government's call to go to Tibet. They help in Tibet's economic construction and undertakings in science, education, and culture, in the spirit of supporting a cause. This is also an imperative need of the Zang compatriots. As everybody knows, Tibet is a vast territory with a small population but rich resources. Due to a long period of domination under the feudal serf system, its productive forces are extremely backward. It needs assistance from the interior and the Hans to introduce advanced production technology and scientific knowledge. As early as the 7th century, after unifying Tibet, King Srong-Btsan Sgam-po attached great importance to introducing advanced production technology from the Tang Dynasty and learning from its politics and culture. After Princess Wencheng married King Srong-btsan Sgam-po, the Tang court sent a large number of Han craftsmen to Tibet. Today, China implements an open policy toward Tibet. Tibet introduces advanced technology and scientific knowledge from the interior. This is similar to China's introduction of advanced technology, equipment, and scientific knowledge from abroad. Some scholars abroad have pointed out that the Hans go to Tibet to help "modernize" it, not to "Hannify" it.

Third: "China abuses human rights in Tibet."

This is absolute slander. The perception on the "human rights" question varies with social systems and a person's position. However when it comes to human rights in Tibet, the Chinese are best qualified to speak on it.

Some people see the democratic reform implemented in Tibet from 1959 onward as "trampling on human rights," and support the Dalai Lama's so-called Tibet independence. Do these people know that the Dalai Lama used to adopt the most backward feudal serf system in Tibet? This system was even more corrupt than the feudal system in medieval Europe. Under this system, 95 percent of the Zang compatriots were serfs and slaves and their lives were even more miserable than those of animals. Not only were they deprived of the means of production, they did not have any freedom. Their masters could sell them and use them to raise mortgages, as gifts or for exchange, without their being consulted. They were tortured as their masters pleased, by flogging, gouging their eyes out, cutting off their hands, pulling out their tendons, or skinning them. The serfs could not even secure their lives and existence, not to mention "human rights." Only after the serf system was abolished, and with the active support of the central people's government, all provinces, autonomous regions,

and municipalities directly under the central government, Tibet obtained world-recognized progress politically, economically, and culturally. There has been obvious improvement in the material and cultural lives of Zang compatriots as well. They enjoy unprecedented democracy and freedom. What is incomprehensible is that Europeans have themselves eliminated corrupt domination from medieval times, but some of them support the Dalai Lama in perpetuating Tibet's serf system which is even more corrupt than the European medieval system. This is a regression in history. The Chinese people, including the Zang compatriots, adamantly oppose it.

Some people make a lot of noise about the Tibet Regional Court verdict, made according to law and with adequate evidence, to sentence to death two criminals accused of murder. They use it as an example of "abuse of human rights" which is absolutely illogical. Is the death sentence levied according to law "trampling on human rights," and indulging murderers to continue committing crimes a protection of human rights?

Fourth: "The Communist Party destroys Tibet's religion."

This is reprehensible. Facts are more convincing than eloquent argument. It is stated in the Chinese Constitution that citizens enjoy religious freedom. This is a legal right. It means that every citizen has the freedom to believe in a religion or not to believe in a religion, to believe in this religion or to believe in that religion. Within a religion, every citizen has the freedom to belong to this sect or that sect. He has the freedom to be a non-believer before but a believer now, or a believer before but a non-believer now. Believers or non-believers, all citizens enjoy political equality with the same rights and responsibilities. All religions are equal, the nation treating them as the same. The Chinese Government adopts precisely this basic policy on religion in Tibet.

Some people use certain damage done to temples in Tibet during the Cultural Revolution as evidence for the statement that "the Communist Party destroys religion." This effort is also futile. Undeniably, the Cultural Revolution was a huge mistake. However, this mistake did not happen in Tibet alone. It was a nationwide one. More importantly, the mistake of the Cultural Revolution has long been corrected. Especially since the 3d Plenary Session of the 11th CPC Central Committee, temples, cultural relics, and historical sites in Tibet have been receiving key protection from the state. At present there are 234 temples, 743 locations for religious activities, 14,320 monks and nuns, and some 330 Living Buddhas. The vast religious masses are free to choose religious activities according to their religious habits, such as chanting scriptures, worshipping Buddha, kowtowing, giving alms, etc. Besides, in order to conduct

research on and teach Buddhism, the Tibet Buddhist Society has been restored and the Tibet Institute of Buddhism has been established. These are all facts.

Just as China gains success in reform and opening up, some Westerners are making a fuss about the "Tibet question." This is not coincidence. It reflects the fact that as the situation in Tibet becomes better and better, the Dalai Lama clique is becoming more worried about losing its foothold and is trying every effort to save its past "paradise." On the other hand, a handful of Americans and West Europeans hold a political bias on the changes and developments in China and use "human rights" as an excuse to interfere in China's affairs. Not long ago the Dalai Lama declared that in 1988 he would pay a "formal" visit to Western Europe. He is trying to

repeat in Western Europe the same old trick of fabricating the same separationist activities that he staged in the United States in September 1987. Some people in the West still want to speak nonsense about the so-called Tibet question. Serious attention must be paid to all this.

Tibet is Chinese territory. All issues related to Tibet belong to Chinese domestic affairs. No single foreign country has the right to intervene. The Dalai Lama is not an ordinary religious person. He is a political exile. Any attempt to ignore international relations regulations by providing a platform or site for activities that aim to undermine our national unity and separate our motherland are unfriendly deeds in the eyes of the Chinese people and are adamantly opposed.

LIAOWANG Discusses 'One Country, Two Systems', Taiwan Independence

HK280805 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 3, 18 Jan 88 pp 4-6

[Article by Li Jiaquan [2621 1367 3123]: "'One Country, Two Systems' and Taiwan's Political Parties"]

[Text] Since the 3d Plenary Session of the 12th KMT Central Committee, which was held in March 1986, the Taiwan authorities have begun carrying out readjustments and reforms of their internal and external policies. Martial law was abolished in 1987 and people are allowed to visit their relatives on the mainland. This has been praised by people from various quarters. Although the prohibition on organizing political parties has not been officially abandoned, in reality, organizing political parties has been tacitly approved. To date, apart from the Democratic Progressive Party, some other new political parties have also been founded in Taiwan. They are: the China Liberal Party, the Democratic Liberal Party, the Labor Party, the China Masses Party, and the Democratic Justice Party. If the existing Democratic Socialist Party and the Young China Party are added, there are altogether eight political parties in Taiwan apart from the KMT. Over the past year or so, five political organizations have also been established in Taiwan. They are the "All-People Patriotic Association," the "Anti-Communist Patriotic Front," the "Summer Tide Friendship Association," the "Society for Respecting the Aged and Esteeming the Virtuous," and the "Political Victims Friendship Association." It is expected that more similar organizations will be established in the future. Although these parties cannot compare with the KMT in scale and number of members, for Taiwan as a whole, there is already a trend of "multipartism." Naturally people are glad to see this and are speaking highly of this trend.

I. New Changes and Challenges

In the past, there was the autocracy and dictatorship of a single party in Taiwan. But now it is moving toward the orientation of "one big party with a forest of smaller ones around." This is really a great change. It is not an accidental phenomenon, but an inevitable outcome of the social, economic, and political development in Taiwan. At present, in the three major productions, agricultural output value makes up less than 10 percent of the total output value while those of industry and the service trades make up more than 90 percent. A society based primarily on an agricultural economy has been changed into an industrial and commercial society with processing and export as the main elements. At the same time, the proportion of agricultural population has dropped from more than 50 percent of the total to less than 20 percent. The time has passed when the peasants were the "most important and stable force" of society. The newly emerged middle class has taken over their position. This includes more than 700,000 medium and small proprietors and large numbers of people living on a similar level. The large contingent of workers engaged in the

export commodity processing industry is also growing and expanding. It is inevitable that this change in the economic basis and social class structure will find expression in the superstructure. For this reason, the political forces representing the interests of various social classes and strata are becoming more and more active, and all kinds of political parties and social groups have emerged as the times require. Today, when Taiwan's social, economic, and political structures are being "pluralized," the long-term situation in which the KMT "unifies the whole country" is faced with an unprecedented and severe challenge.

At present, various political forces on Taiwan Island are faced with many contradictions. But there are two major questions: 1) the inheritance of political power on the island, and 2) the readjustment of mainland policy. The two matters are interrelated and inseparable. In the final analysis, it is a question of who will lead Taiwan and where it will go. Will it follow the road of reunification on the basis of "one country, two systems," or will it maintain the status quo or even break away from the big family of the motherland? In a word, it is a question of "reunification" or "independence," and a question of "true reunification" or "false reunification." This is the biggest realistic problem facing the KMT and all other political parties in Taiwan, and a major question concerning their destiny. In appearance, various political forces and their political parties are masters in handling these matters, and they are in a decisive and dominant position; but in reality, they will all be subjected to severe testing by the people on these questions, and the people will make their choices and decide which to accept or reject. Those which can stand the test and enjoy popular support, though they may be weak and small at present, will be able to develop and expand; and those which cannot stand the test and go against the will of the people, though they may be strong and big at present, will finally become weak or even be destroyed.

II. Trends That Merit Attention

Looking at the general situation of the KMT and other political parties in Taiwan, I feel that there are some trends or indications that merit our attention.

Let us look at the KMT first. When it was on the mainland, it made some historical contributions in the struggles to overthrow the rule of the Qing dynasty, the punitive expedition against Yuan Shikai, the Northern Expedition, and the War of Resistance Against Japan. In the past 4 decades since it went to Taiwan, it has also made some contributions in economic development as well as in adhering to the principle of "one China" and in opposing the "independence of Taiwan." The problem is that due to heavy historical burdens, it found it difficult to make a big stride forward on the question of reunification of the motherland. Now the KMT is the biggest party in Taiwan, and the governing party as well. It holds internal military, police, and political power and has the support of the United States and other international

forces abroad. In addition, it has made certain achievements in economic development. All this makes it feel somewhat complacent on the question of reunification and in dealing with relations between the two sides of the strait. It has thus become unrealistic on this question, stubbornly advocating the so-called "basic national policy," "being irreconcilable with the bandit gang," "not to contact, not to negotiate, and not to compromise," and "reunifying China with the Three People's Principles."

The CPC leaders have repeatedly explained that the idea of "one country, two systems" means long-term coexistence of both sides on the premise of "one China only." Neither one will swallow the other. However, they have thought out an idea of having the socialist system on the mainland swallowed up by Taiwan's "Three People's Principles." Even Taiwan's newspapers and magazines have admitted that this is just "idiotic nonsense" and cannot be realized. But why should they advocate and emphasize this idea every day though they are fully aware that it cannot be realized? Discerning people can easily understand that they have ulterior motives. To put it bluntly, their purpose is simply to maintain their "legal rule" and to maintain the signboard of the so-called "Republic of China," which only exists in name for a long time. Otherwise they will find it very difficult to continue their rule. As in the past, the KMT is still opposing both the CPC and the "independence of Taiwan" and is attempting to take a third road between the two, that is to "drag on" and to maintain the status quo so as to "seek survival in the narrow space between them." They have thus adopted more flexible methods and forms, but their basic policies are unchanged. Some people have summed up the current methods of the KMT into 16 Chinese characters, meaning: "maintaining peace but not talking, continuing competition but not fighting, promoting communication but not reunification, and separating but not breaking away." This is a typical road of maintaining separation of both sides. No wonder some people on the island say that the KMT is actually advocating the "B-type independence of Taiwan" and is in reality the biggest splittist.

Now let us look at the other political parties. The Democratic Socialist Party and the Young China Party are the two parties that went to Taiwan with the KMT, and their political stand is known to all. Of the six political parties and five political groups that have just been founded, the China Liberal Party, the All-People Patriotic Association, and the Anti-Communist Patriotic Front are supporting the KMT. Their political propositions are almost the same as those of the KMT. For example, the China Liberal Party declares that it opposes the Communist Party and "independence of Taiwan" and upholds the principle of "reunifying China with the Three People's Principles." This is almost the same as the proposition of the KMT. But since it is so, why should a new organization be established outside the KMT? As to other political parties, the Democratic Progressive Party advocates "democracy and freedom," "self-decision by the residents," Taiwan's "return to the

international community," and "rejoining the United Nations." It has especially emphasized that "the future of Taiwan should be decided by all residents in Taiwan through fair and equal free and democratic methods." The Labor Party says that it is a "political party of the whole people with the laborers as the center." It advocates that "in order to solve the problem of the future of Taiwan, it is first necessary to end the confrontation between the KMT and the CPC and resume contacts between the people on both sides of the strait so that they can fully understand each other and resolve the problem in a democratic and peaceful way under the principle of respecting the people of Taiwan." The Democratic Liberal Party declares that in domestic affairs, it "demands democratic reforms" and "strives for more political and economic freedom for the people of Taiwan"; and in foreign affairs, it "strives to restore Taiwan's international position and ensure the security of Taiwan." The China Masses Party is mainly composed of people from the provincial marine anglers association and the industrial and commercial circles. It "takes opposing bureaucracy, corruption, violence, split, and totalitarianism as its party program," requiring "implementing the policy of equal wealth and creating a tranquil, harmonious, and democratic society" and advocating "strengthening substantial communication with the mainland and allowing people from the mainland to come and visit their relatives." The Democratic Justice Party declares that its purpose is to "seek unity and freedom at home while strengthening national security to resist foreign invasion and to build a developed country on the basis of equal wealth while seeking welfare for all the people." As for other political groups and organizations, we will not go into details in this article. It seems that all these political parties and political groups basically hold identical views on questions such as demanding to be masters of their own houses, demanding to participate in political affairs, and seeking democracy and reforms, but hold different views on the questions of "reunification" and "independence," as well as on relations between Taiwan and the mainland. Some of them are even sharply antagonistic to each other on these questions. Some political parties and political groups, or their representatives oppose both the KMT and the CPC and are trying to follow a third road of "independence of Taiwan." They are known by the people of Taiwan as the "A-type independence of Taiwan," preparing to make Taiwan break away from the big family of the motherland both in content and in form.

III. The Road of Breaking Away from the Motherland Should Not Be Taken In my opinion, we should oppose all types of "independence of Taiwan." They have no bright prospects at all.

Let us look at the so-called "B-type independence of Taiwan" first. This is in reality a faction of splittists who advocate maintaining the status quo. There should be certain conditions for maintaining the status quo. However, changes have already taken place and are taking place in these conditions. As everyone knows, the main

reason why the Taiwan issue has still not been solved even to this day is that the U.S. Government has interfered in this internal affair of China and has placed obstacles in its path. There is also a second reason: the CPC and the mainland have their own problems. But now the situation is developing in an orientation unfavorable to the KMT. A friend who specializes in the study of relations between the two sides of the strait says that he has discovered a "secret" between the two: the situation on the mainland is in direct ratio to the situation in the Taiwan Strait, but is in inverse ratio to the situation in Taiwan. In other words, the better the situation on the mainland, the more peaceful it will be in the Taiwan Strait, but the less peaceful it will be on Taiwan Island, and vice versa. He also said: In the past when you talked about the reasons for Taiwan's economic development, you always emphasized the support of foreign powers. But in my opinion, it was the mainland itself that offered the greatest help. If you did not emphasize taking class struggle as the key link and did not fight one another, there would not be such a good political environment for Taiwan to promote its economic development. If there had been normal development on the mainland, Taiwan would not have been able to compete with the mainland. He continued: Now the situation is entirely different. Although there are still some problems on the mainland, since the 3d Plenary Session of the 11th CPC Central Committee, the CPC has been following the right path and the situation is becoming better and better with each passing day. The national situation will surely be even better after the 13th CPC National Congress. He pointed out that over the past few years, since the situation on the mainland has improved, turbulence has begun to appear in Taiwan's political situation, though its economic situation is still good. If the relations between the two sides of the strait are not properly solved, the turbulence in Taiwan's political situation will be further aggravated, which may also possibly affect the economic situation. I quite agree with his opinions. I also believe that the continuous improvement in the political and economic situation on the mainland may also affect the attitude of some international forces that have been supporting Taiwan in maintaining the status quo. I believe that out of consideration for their own interests, the day will certainly come when both the government and the public of the United States completely change their current Taiwan policy. It should be particularly pointed out that at present, our compatriots both at home and abroad have a strong desire to rejuvenate China. They all hope that both sides of the strait will cease confrontation and realize the reunification of the motherland as soon as possible. The CPC leaders have said that we "place great hopes on the Taiwan authorities" and "still greater hopes on the people of Taiwan." What will happen then if people are entirely disappointed in "placing great hopes on the Taiwan authorities?" Then let us look at the so-called "A-type independence of Taiwan." This is also a path that should not be taken. First, the whole world, including the United States, recognizes that Taiwan is an inseparable part of Chinese territory. Second, the 1.1

billion Chinese people on both sides of the strait will under no circumstances allow Taiwan to break away from the motherland. Third, if "independence of Taiwan" should succeed in Taiwan, all kinds of contradictions will inevitably emerge on this island, which will aggravate turbulence in society and affect Taiwan's economic development. Over the past 2 years, due to certain reasons, the trend of "independence of Taiwan" has gained ground to a certain extent in Taiwan. It is natural that many people on both sides of the strait and many overseas Chinese have shown concern and anxiety over this matter. However, it is necessary to make a concrete analysis of it. In my opinion, some people who advocate "independence of Taiwan" are not necessarily resolute advocates. They might be those people who have been unfairly treated by the KMT since the latter took over Taiwan, just like the abandoned children of some families who are discriminated against and ill-treated rather than being cared for with warmth and solicitude after returning to the embrace of their parents, having had their fill of hardships. Under such circumstances, it is not strange that the idea of "leaving home" has arisen again. Moreover, after returning home, they find that the big family has split. Since they are discontented with one side and do not truly understand the other, they are thinking of leaving again. This is not strange either. We must fully understanding the feelings of these Taiwan compatriots and allow them to complain and to air their views. On the other hand, we must strengthen contacts and dialogues with them so that both sides can understand each other better. I firmly believe that their attitude will surely change if the political and economic situation on the mainland continues to improve and correct policies are adopted toward the Taiwan compatriots so that they can really feel that there is a way out for them and they can really become masters of their own houses. This is what the KMT is most afraid of, because once the people of Taiwan know the true situation and their future, the KMT will be unable to carry out its policy of "three don'ts." Of course, it is also necessary to carry out resolute struggles against those who have foreign support and are dead set on separating Taiwan from the motherland. However, when the great majority of people have come to realize the truth, these people will certainly be isolated and their intention of splitting the country will not succeed.

What merits our special attention is that some people are trying to make use of the time when the people on both sides have not yet fully communicated with one another and quite a few Taiwan compatriots are still having doubts and misgivings to make the above-mentioned two forces and two trends "flow together." Although we still cannot say that this is already a fact, there are already some clues there. Some people surmise that to achieve their purpose of maintaining the status quo and rejecting peaceful negotiations, some people at the top level of the KMT may adopt the following tactical measures: To make use of the force of the CPC to suppress the proponents of "independence of Taiwan," and to use the proponents of "independence of Taiwan"

to reject the CPC's peace offensive. Naturally, the advocates of "independence of Taiwan" will also take this opportunity to force the KMT to make concessions so as to expand their influence. A recent LIAOWANG article entitled "Letters from Beijing" points out that the KMT method for dealing with the "independence of Taiwan" is actually a method to "merely alleviate the symptoms of an illness without effecting a permanent cure...." What it says is exactly true!

IV. The Future of Taiwan and Its Political Parties

In both the KMT and in other political parties, some people wish to "drag on" or to realize "independence of Taiwan." This is probably because: 1) those already in power are afraid that they may be swallowed up and their vested interests may be affected; 2) those who are not in power are afraid that they may not be able to "rise above the others" as masters of their own houses and will always be second-class citizens. As a matter of fact, they are all wrong. It shows that they do not really understand the CPC. Since the 3d Plenary Session of the 11th CPC Central Committee, the focus of the entire strategy of the CPC has shifted to economic construction. The CPC no longer "takes class struggle as the key link" as it did in those years. The question at present is not whether it wants to swallow up Taiwan, but how to enable Taiwan to play its role in promoting the "four modernizations" drive and economic construction of the motherland, which is also favorable for Taiwan's economic development and prosperity. It is understandable that people had such wrong ideas in the past due to their lingering fear. But it is hard to understand why some people still have such ideas even to this day when the basic theory on the "initial stage of socialism" has been put forth by the 13th CPC National Congress and the situation has become so clear. As to the question of being masters of their own houses, this is one that is easier to understand. The Taiwan compatriots are all members of the big family of the motherland. They are not only masters of Taiwan island but also masters of the mainland, masters of the whole country. After realizing reunification, in our vast territory covering an area of 9.6 million square kilometers, the Taiwan compatriots will find that "there is ample scope for their abilities." They can run their businesses and make a fortune, go sightseeing and travel, and become cadres and officials taking part in the administration of state affairs there. In international affairs, they will be able to share the dignity and honor of a big sovereign nation. In past history, the Taiwan compatriots had many bitter experiences. This was a result of the rule by their past rulers and imperialist aggression. The compatriots on the mainland have shared the same historical experiences. Now, both sides should join hands and cooperate with each other to rejuvenate the Chinese nation and put an end to this historical misfortune. Recently the KMT authorities began to allow people to visit their relatives on the mainland. They have also made certain adjustments on various mainland policies. This is a gratifying step they have taken. In my opinion, under the current historical

conditions, the question of how to correctly deal with the relationship between the two sides of the strait and the peaceful reunification of China will become a pressing and important task facing the KMT and all the new political parties, whether big or small, in power or not. All the Chinese people are watching the parties expectantly, and will also test them.

Now, many plans have been put forward by various quarters on the reunification of China. I have already seen more than 10 plans on this question. However, examining them, I feel that the principle of "one country, two systems" put forth by the CPC is comparatively more reasonable and realistic. Many other patterns, such as maintaining the status quo and delaying reunification, "two Chinas" or "one China, one Taiwan," and the "independence of Taiwan," are all unacceptable to the CPC and the people on both sides of the strait. Some people have one-sidedly emphasized Western freedom and democracy and set reunification against democracy. This is not appropriate either. The principle of "one country, two systems" does not exclude democracy. It is also incorrect to reject this principle under the pretense of democracy. The two are unified and they complement each other. Democracy is a banner. It is important. Reunification is also a banner. It is also important, or even more important. All political parties and political groups and all political forces, whatever they are and however successful they may be at this moment, will finally be discarded by the Chinese people if they discard the banners of patriotism and reunification.

Of course, "one country, two systems" has only just been put forward as a policy and principle. A great deal of work has yet to be done to make it more concrete, more perfect, more acceptable to various sides, and more realistic and applicable. It requires that the political parties and groups on both sides of the strait, especially the parties in power, should carry out sufficient negotiations and dialogues. Now is the time. The matter brooks no more delay. It is my hope that various political parties and groups in Taiwan will endeavor to help bring about such negotiations and dialogues and do their bit for the peaceful reunification of Taiwan and the mainland.

National Civil Service System Advantages

40050069 Beijing BAN YUE TAN [SEMIMONTHLY TALKS] in Chinese No 28, 10 Dec 87 pp 9-11

[Article by Cao Zhi [2580 1807], Liu Junlin [0491 0193 2651], Dai Guangqian [2071 0342 0467]: "The Establishment of a National Civil Service System is Part of Political Structural Reform"]

[Text] Discussing political structural reform, the report to the 13th National Party Congress says, "The focus in the reform of the cadre personnel system today is to establish a national civil service system. In other words, we should formulate laws and regulations to manage scientifically government personnel who exercise state administrative power and execute public duties." In our

opinion, the creation of a national civil service system is a major policy in the CPC Central Committee's effort to reform the cadre personnel system as well as a critical step in achieving the general goals of political structural reform.

Why so?

First of all, a national civil service system is a necessary prerequisite for a highly efficient administrative command system. To reform the political system, we must begin by separating the party from government. After new party leadership methods are put in place, government agencies must fulfill their role and responsibilities in organizing economic construction and looking after state affairs to the full. This requires that we put together a structurally sound, efficient, and dynamic command system that performs a full range of functions and includes a comprehensive legal system. Apart from the fact that government agencies must be fitted with scientific equipment and duties and powers should be clearly divided, the formation of such a command system would depend on the quality of its entire work-force, that is, the national civil servants. Whether they are efficient, capable, incorruptible, and steady, and whether they would put their initiative to use to the maximum will determine the efficiency of the administrative command system. In a sense, the command system can only be as good as its civil servants. If we are to have a highly efficient administrative command system, we must solve two problems. First, how do we select outstanding people, recruit them into the ranks of the civil service, and make them continue to improve? Second, how can we make the most of their talents? The existing cadre personnel system cannot be relied on to solve these two problems. An effective approach would be to draw up a series of laws and regulations tailored to the national civil service's characteristics and manage the service scientifically in accordance with the law.

Second, a national civil service is indispensable to strengthening cadre personnel work and its legal system. For years the hiring, promotion, evaluation, punishment, and reward of government personnel lacked uniform standards and procedures because of an incomplete personnel management system and a flawed legal system. As a result, people were hired but seldom fired; promoted, but not demoted. There were no clear criteria for reward or punishment. The rule of man was widespread. Not only does this hamper the extensive discovery and proper utilization of outstanding qualified people, lowering the quality of government personnel, but it also undermines party and government prestige. To put an end to this situation, we must reform the existing cadre personnel system and formulate a host of laws and regulations so that the selection, appointment, and other aspects of personnel management are all based on national laws, regulations, and institutions. We cannot treat people differently or allow a person's word to replace the law. We cannot let people do things their own way, much less regard a government position as a favor.

Decades of experience tells us that only if the rule of law is applied to personnel management can it be applied to administration, and only if the rule of law is applied to administration can it be applied to governing the nation.

Furthermore, a national civil service is an important step toward classified cadre management. The current concept of "national cadre" is too generalized. Moreover, one single mode of management has traditionally been used to manage national cadres as well as party cadres, which is very unscientific. In the future, we should follow the principles of separating party from government and removing government from enterprises. Personnel management and the management of affairs must restrain each other even as they are coordinated closely. Besides, we should establish some relatively independent management systems each with their own characteristics to suit the professional features of different kinds of personnel and the different laws governing their development. Our top priority now is to remove workers in national administrative organizations from the ranks of cadres and create a unique national civil service management system in accordance with the law so that national civil servants can discharge the state's various administrative responsibilities. If we succeed in managing national administrative personnel, it would serve as a model for the scientific management of other kinds of personnel.

It can thus be seen that a national civil service is an important component of the national political system. As economic structural reform intensifies and political structural reform gets under way gradually, the establishment of such a system will help strengthen and improve party leadership over cadre work, nurture administrative workers and managers that have both ability and political integrity, overcome bureaucratism in administrative management, improve government efficiency, ensure the stability of national administration and management, and bring about the establishment of a democratic, scientific cadre personnel management system that is based on laws. Needless to say, it takes a long process to establish and perfect a national civil service system. The joint efforts of all localities, departments, and units are necessary if this system is to play a role in national government life.

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Yu Haocheng Discusses Legal System, Political Structural Reform

40050087a Shanghai SHIJIE JINGJI DAobao
[WORLD ECONOMIC HERALD] in Chinese
11 Jan 88 p 12

[Article by Yu Haocheng [0060 3185 2052]: "The Legal System and Democracy Go Hand In Hand"]

[Text]

Functions of Dictatorship Diminish in the Initial Stage of Socialism

In the initial stage of socialism, class struggle enters a state of gradual decline. So should the functions of dictatorship. Certainly, dictatorship does not develop in a linear fashion and we cannot rule out the possibility that at some points and in some circumstances they may intensify. On the whole, however, the functions of dictatorship are essentially on the wane. Do not assume that as democracy expands, the functions of dictatorship will strengthen. That would be a rehash of Stalin's erroneous theory that "the more developed socialism is, the more intense the class struggle will be" and a result of the mistaken "leftist" theory of "taking class struggle as the key link." Judicial agencies, in particular, must take care to prevent and correct such ideas.

A heated debate on the functions of law has been raging in the legal community in recent years. Many people argue that in a class society, law is of a social as well as class nature and must fulfill the function of regulating all kinds of social conflicts.

The initial stage of socialism is a transitional period during which a class society becomes a classless society, accompanied by a change in its law from class to social law. In traditional legal theory, law can only be of a class nature and is unique to class societies. Law is regarded as merely an expression of the wishes of the ruling class, an instrument of class oppression. What this interpretation cannot explain is the fact that since the Third Plenum, at a time when class struggle is no longer the primary conflict in our socialist nation, we are still talking about strengthening the legal system.

This suggests that in the initial stage of socialism the oppressive function of law becomes less and less significant while increasingly its purpose is to regulate all manner of social conflicts. Some people say, rightly, that law is a tool of self-control in human society.

Democracy and the Legal System Are One and the Same Thing

Democracy is the foundation; the legal system, the safeguard. The two should be one and the same thing.

After seizing power, the proletariat should govern the country with laws. Everything should follow the rule of law. Our mistake in the last several decades was to overlook this and persist in solving problems with political campaigns.

No doubt politics should be in command of the law, but not replace it. Since law has its own principles and characteristics, such as stability and national universality, it is clearly inappropriate to replace it with politics. Some sectors and localities, however, frequently put policy ahead of the law and fail to comply with the law. In the course of policy implementation, they often allow

the policy of the times or locality to prevail. For instance, the compulsory enforcement of marriage age provisions in the marriage law often leads to public complaints, prompting some people to ask, "Is the government breaking the law, or are we?" Another instance is that in handing down sentences, some local courts do not follow the law strictly. Instead they bow to the needs of the situation and the wishes of their superiors. In the watermelon swindling and robbery case in Beijing, the two leading culprits were sentenced to life imprisonment. The Daxinganling fire caused over 1 billion yuan in losses, but so far not one of those guilty of dereliction of responsibility has been punished. Problems like this tend to give the public the appearance of injustice. We seldom talk about social justice. I think we should. Socialist nations are fully capable of achieving social justice.

Political and Legal Commissions at All Levels Should be Abolished

There are many issues awaiting solution in reform, opening up, and economic vitalization. The achievements of reform, opening up, and economic vitalization also should be consolidated with law. It will not do to rely on policy adjustments alone. Policies are highly fluid. On some issues, everybody thinks reason is on his side. You say you are into reform, opening up, and economic vitalization. To him, however, you may be an economic criminal. Thus the more we intensify and expedite reform, the more we should keep up with it by preparing the necessary legislation as soon as possible.

One should be rightly cautious when it comes to drawing up legislation. On the other hand, we should not wait till a piece of legislation is perfect before approving it. No harm would be done if laws urgently needed are formulated and then amplified and amended in the course of implementation. Our present rate of law-making is too slow. It must be remembered that it is fine to prepare some laws ahead of others if necessary.

To ensure the smooth progress of reform, opening up, and economic vitalization and protect reformers from persecution, legal and judicial agencies must first distinguish clearly between crime and non-crime. Involved here are party-government separation and judicial independence. Comrade Deng Xiaoping said, "To put the Central Discipline Inspection Commission in charge of cases where the law has been broken does nothing to instill a sense of law in the people." "It is inappropriate to have the party in charge of matters that fall within the realm of law. Too much party intervention will hamper the cultivation of a sense of law among the public."

Accordingly I propose that all political and legal commissions under party committees at provincial, municipal, regional, and county levels be abolished without

delay. Practice has proved that the commissions' existence and activities are detrimental to judicial independence. If the party committee gets to decide a good number of cases, will the administration of justice not become a mere formality?

More Attention To Prevent Wrongful Charges and Mistrials

First, it must be stressed time and again that legal and judicial departments should give top priority to the protection and promotion of reform. Also, they should work to improve the quality of procuratorial and judicial personnel constantly so that the latter will master the party's general principles and policies conscientiously, grasp reform theories, and know something about economics. They should plunge into the thick of reform, familiarize themselves with it, and make friends with reformers.

Second, procuratorial organs and people's courts must check and supervise one another in accordance with the law. Some localities do not emphasize this at the moment. Instead, under the slogan "joint confrontation," they go in for so-called "advanced involvement," "unified handling of cases," and "joint handling of cases." In one or two provinces, the political and legal commission itself handles the cases. Actually this is a manifestation in the judicial field of the shortcomings of the lack of separation between party and government. All this "joint" or "unified" case-handling is against the law and should be curbed firmly.

Moreover, grassroots party committees in many places have failed to implement properly the CPC Central Committee's 1979 instruction directing party committees not to examine and review cases and not to replace the law with the party or a leader's words. To this day they are still taking on individual cases and intervening in court trials. Some party committee leaders impose personal wishes on procuratorial organs and people's courts and make arbitrary decisions on such detailed judicial matters as arrests and sentencing, severely disrupting and affecting the execution of the principle of judicial independence. This also is a major cause of the new wrongful charges and mistrials.

In trying a case, the court should act in strict accordance with the law. Under no circumstances is it to rely on the decision of a leader, let alone hand down sentences to "fit the circumstances." As soon as there is talk of stiffer sentencing, some hand down harsh sentences. At other times, they are more lenient. These swings between strictness and leniency not only fail to fully convince those who are sentenced, but also hamper the serious reform of criminals and undermine stability and unity.

Needless to say, we should have the courage to correct wrongful charges and unjust verdicts promptly as soon as they are discovered and must not be afraid of losing face. This too is an important issue in judicial reform.

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Democracy Seen Key to Political Reform

40050096a Beijing GONGREN RIBAO in Chinese
15 Jan 88 p 3

[Article by Tian Zhilin [3944 6347 2651]: "Economic Structural Reform Needs Expanding Socialist Democracy"]

[Text] Essentially speaking, democracy is inherent in the socialist system. When we talk about socialism, we automatically include democracy, which is one of its attributes.

Regrettably, for a period of time we overlooked the basic demand for socialist democratic construction. At one point the socialist democratic system was brutally trampled upon and the people's democratic rights were almost totally wiped out. Modern democracy needs the protection of the legal system and is effected through a series of legal procedures. The so-called "great democracy" was a highly centralized form of anarchist chaos under China's special conditions and constituted a reaction to democracy. History is a profound teacher. And the major lesson of the history of socialist development in China is our failure to establish democratic politics in earnest. The only way to avoid a repeat of the tragedy of the Cultural Revolution is to conscientiously introduce democratic politics and affirm the people's rights by writing them into law and protecting them to ensure that they will not be changed as a result of changes in the wishes of the leadership.

As far as democratic construction is concerned, both our ancestors and we ourselves have been amiss. Our ancestors bequeathed to us a rich cultural legacy, but not much of a democratic tradition. There were populist theories in Chinese history; what is rare is democratic thinking. Nor did China go through such democratic rites of passage as the Enlightenment and the bourgeois revolution, unlike Western societies. During the May 4 movement, "Mr. Virtue" was invited to China. However, imperialist invasion turned the struggle between imperialism and the Chinese people into the main conflict in society; saving the nation became the top priority. Moreover, for a while and to a certain extent, we allied ourselves with the feudal class. Then the People's Republic was founded. Owing to our natural economic basis and longstanding cultural tradition, we now made a fetish of "Mr. Virtue" and put him on a pedestal, now banished him to hell and mocked him as a toy of the bourgeoisie to our hearts' content. This explains why democratic construction remains an arduous task even today. Almost all that is wrong with the political system—bureaucratism, power over-centralization, paternalism, and life tenure for cadres, among others—is related to our failure to introduce democratic politics in earnest. Some of these maladies are intrinsically inconsistent and cannot coexist with democracy. Others are

the inevitable products of an imperfect democratic system. Clearly the basic cure for these chronic maladies is socialist democracy. Otherwise, we will not be able to break out of the cycle of "politicians turning into bureaucrats" and put an end to the situation in which the "departure of an individual means the demise of his policies as well."

Judging from the economic structural reform now under way, there also is a need to further broaden socialist democracy. Economic structural reform essentially boils down to an attempt to give the people ownership of and control over the means of production and expand workers' democratic rights in the economic arena, hence mobilizing their production enthusiasm and releasing social productive forces, by adjusting production relations. The achievement of economic democratic rights necessarily makes additional and more stringent demands on political democracy. In this sense, economic structural reform is a prelude to political democratization.

Modern democracy is a historical phenomenon that accompanies the appearance of a large-scale commodity economy. The commodity economy is by nature an equalizer. It requires a relationship of economic equality between different commodity producers which, translated into the field of politics, also demands democracy and equality among individuals so that they can each protect their own interests. This important theoretical breakthrough in the planned commodity economy and its progress in practice have satisfied a condition for the expansion of socialist democracy. The process of developing a socialist commodity economy should be a process of establishing socialist democratic politics as well. In a planned commodity economy under socialism, individual commodity producers both share a basic common interest in building a socialist economy and have their own special interests. This kind of interest pluralization makes democracy increasingly necessary. Never are political democratic rights divorced from a particular economic interest. Instead, political democratic rights have deep-seated economic roots and bases. People need to exercise their democratic rights in order to protect their economic interests from the incursion of any organization, group, or individual. Only from this perspective can we more profoundly realize the urgent demand made by economic structural reform on political democracy. In leading the people to be the master of their own affairs, the party is regulating the economic interests and related political demands of different interest groups through legal procedures and democratic tools, representing the basic and long-term interests of the entire populace, and protecting the legitimate special interests of citizens and groups, thereby preserving social order.

Establishing democratic politics has become a trend of the times. The long-term goal of socialist political reform is to establish a highly democratic political system. As a

historical phenomenon and part of the political superstructure, however, democracy will always remain tangible and historical. Rights can never transcend society's economic structure and the cultural development conditioned by it. Like the creation of a socialist commodity economy, the development of socialist democratic politics is a gradual process. If socialist democracy is to really develop healthily and effectively, we must make a major effort to develop the socialist commodity economy, upgrade the level of social productive forces, and correspondingly improve the cultural quality and democratic concept of the entire population.

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**Rational Administration, Rule of Law
'Interdependent'**

40050087b Shanghai SHIJIE JINGJI DAOBAO
[WORLD ECONOMIC HERALD] in Chinese
11 Jan 88 p 12

[Article by Xia Ming [1115 2494]: "The Rule of Law Safeguards the Civil Service System in a Modern State"]

[Text] To adapt to positivistic science and the development of large-scale mechanical production, modern nations have embarked on "administrative rationalization," which is totally different from the administrative mode of agricultural societies—"man proposes, god disposes." Administrative rationalization requires the state to administer and govern steadily and consistently in a rational manner in strict accordance with the law. Under no circumstances is it to act emotionally and make unpredictable changes in policy. A civil service is an important manifestation of rational administration. The "scholar official" in Chinese history, whose characteristic was impulsive decision-making, was not a civil servant in the modern sense of the term. He did things entirely perceptually; his rule was the "rule of man." As soon as it appeared in England, the modern civil service displayed two characteristics. Experiences and customs were replaced by science, with administration developing into a set of special skills. Civil servants are management experts, cultured and schooled in science. In the past, "the king is law." Now it is the other way round, "the law is king." No longer are civil servants an instrument to be used at the pleasure of the government. Instead they are independent legal persons and must act and govern the country in accordance with the law. These two points can be summed up as "rational administration" and "the rule of law," the very characteristics of a modern state.

"Rational administration" must be safeguarded by the "rule of law." The "rule of law," in turn, must be effected through "rational administration." Without sound comprehensive laws, there is no guarantee that rationality will not degenerate into fanaticism and impulsiveness. Without "rational administration," an evil despot may

take the law into his own hands, turn the courts into a new inquisition, and abuse power wantonly. It can thus be seen that "rational administration" and the "rule of law" are interdependent.

The civil service epitomizes the two principles mentioned above. It demands that administrative officials be qualified personnel who are specially and scientifically trained and selected in accordance with prescribed procedures. The civil servant is a legal, not natural person. He can exercise only such functions and powers as those conferred on him by law. The law defines his jurisdiction. He is empowered to do what the law allows him to do. The citizen, on the other hand, is a natural person and has the freedom to do what the law does not prohibit. He supervises and controls the civil servant from the outside. The spirit of the modern civil service and the civil servant-citizen relationship cannot be mentioned in the same breath as the bureaucracy and official-people relationship under the feudal system. In the age when "I am the state and the law," the monarch's power was absolute. His underlings, too, did what they liked with the people. Legal persons did not exist. There was no such thing as the "rule of law." The statecraft we could see was totally non-rational behavior. Instead of

rationality, there was barbarity. Thus the replacement of the feudal bureaucracy by the civil service represents a big step ahead in the struggle against the feudal centralization of state power.

In Britain, the principle of the "rule of law" is regarded as part of the essence of constitutionalism. To protect the citizen's rights and exercise supervision over civil servants as provided by law, it has put together a very good system offering the citizens an array of supervisory methods. From administrative tribunals to parliamentary administrative commissioners, from members of parliament to interest groups to the courts, the avenues are indeed plentiful. When all these channels are used to no avail, the ultimate means of supervision is to appeal to public opinion. Experience shows that rational administration needs a civil service, which needs the "rule of law." The "rule of law" requires active citizen participation as the ultimate safeguard. Enhancing the tone of citizen political participation and discourse and hence protecting one's own rights, in turn, depends on education. Mill said, "Almost nothing else is better than the civil service at improving the quality of national educational institutions."

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NATIONAL AFFAIRS, POLICY

Ma Hong on Industrial Policy, 'Important Instructions' From Zhao

40060136 Shanghai WEN HUI BAO in Chinese
16 Jan 88 p 1

[Interview with Ma Hong, chairman of the Economic, Technological, and Social Research Center of the State Council, by WEN HUI BAO reporter Huang Luoyi [7806 5012 1837]: "Zhao Ziyang's Important Instructions On Industrial Policy"]

[Text] During a recent interview, Ma Hong [7456 3163], the well-known economist and chairman of the Economic, Technological, and Social Research Center of the State Council, disclosed that China is in the process of formulating an industrial policy and revealed the spirit of Comrade Zhao Ziyang's instructions regarding the preparation of such a policy.

Comrade Zhao Ziyang's Important Instructions

Question: Reporters have learned that Comrade Zhao Ziyang has issued important instructions on the report "China's Industrial Policy: A Preliminary Study" submitted recently by the Economic, Technological, and Social Research Center of the State Council. What is the spirit of his instructions?"

Answer: Comrade Zhao Ziyang made the following major points. First, determine that the key to economic efficiency in China lies with the sound allocation of resources and the organizational and structural rationalization of enterprises. Second, the above will not be achieved by market mechanisms and free competition alone. What is also needed is the intervention of a national industrial policy and enterprise organizational policy. Third, we must apply economic instruments and a series of regulatory and control mechanisms including taxation, credit, and prices to enable national policy intervention to have the expected effects. Fourth, by implementing the above policy, we will be able to combine development with reform, planning with the market, and the macroeconomy with the microeconomy, at the same time setting the direction of planning reforms.

China's Industrial Policy To Be Broadly Interpreted

Question: An industrial policy can be interpreted narrowly or broadly. Interpreted narrowly, it usually refers to industrial development and planning. Interpreted broadly, it means a set of policies designed to adjust the economic structure nationally and bring about the modernization of the industrial structure. Can you tell us how the industrial policy now under preparation is to be interpreted? What does it consist of?

Answer: The policy we are working out is a broad policy. It includes a structural policy, industrial organizational policy, industrial technological policy, import and export policy, and industrial promotion and restriction policy.

In the near term, the detailed substance of China's industrial policy is as follows. Under the industrial structure policy, we will have policies to strengthen the basic industries, such as energy, transportation, and raw materials in order to increase their supply capacity; policies to will select key regional industries and key national industries and determine their geographical distribution; and foreign trade policies concerning international cooperation. Under industrial organizational policies, we will have policies to determine the economies of scale, policies to stimulate and improve the circulation of elements of production, policies to promote production standardization and technological progress, and policies to establish groups of enterprises etc. In addition, we need to work out a series of coordinated measures concerning prices, banking, finance, taxation, and foreign exchange to support and ensure the implementation of these policies.

What We Should Pay Attention To At The Present Stage

Question: As a means with which the government regulates and controls market mechanisms, an industrial policy should focus on such phenomena as local market balance and overall balance, on the one hand, and devote itself to the optimal allocation of resources and to enhancing enterprise competitiveness and other issues involving the essence of economic development, on the other. What should we pay attention to as we formulate the industrial policy at the present stage?

Answer: Four points. First, the organic ties between construction and reform. An industrial policy is a comprehensive set of policies that aspire to development and are safeguarded by reform. It seeks to coordinate prices, banking, finance, taxation, foreign trade, foreign exchange, and other regulatory mechanisms. It will help us create economic institutions conducive to the optimal allocation of resources and enable us to enjoy to the full the benefits of late development, that is, exploiting our latent advantages by learning from the successful experience of advanced nations and importing their fund and technology. We can also enhance enterprise competitiveness on the market and spur enterprise vitalization through an industrial organizational policy. Second, meeting the demand of different stages of development. After a highly successful rural reform and certain urban reforms, China right now is entering a new stage of drastic change in the economic structure. The reorganization of key production elements becomes an even more important task and makes new demands on reform. If reform is to be intensified, it will inevitably involve the rationalization of the industrial structure and a reordering of industrial organizations. In other

words, reform must enter a new stage. The present stage of industrial policy lays the foundation for industrial takeoff, the goal being the rationalization of the industrial structure as well as specialization and division of labor within each industry. Full competition and effective intervention will ensure the achievement of the set objectives. During the next phase of industrial takeoff, the goal of our industrial policy should be industrial upgrading and making organizations more efficient. Third, integrate planning with the market. An important assignment of China's industrial policy is to accelerate the creation of a market system and improve the market climate. At the same time, to achieve our socialist macroeconomic development objectives, the industrial policy must effect the government's guiding intentions through planning. Fourth, stability and legality. In the course of economic change, policies are often highly experimental. But unpredictable policy changes can make even the best policy unacceptable to society. As a medium- and long-term policy, our industrial policy based on scientific forecasting and decision-making is relatively stable and constant over the long run and has the force of law in a certain sense.

What Major Problems The Industrial Policy Should Solve

Question: A good industrial policy should be able to regulate the economy effectively. After it is worked out, what major problems will China's industrial policy be able to resolve?

Answer: It will be able to resolve at least the following major problems. First, achieve a basic balance between total supply and total demand, while ensuring optimal resource allocation. An important goal of reform is to establish control mechanisms that can bring about an overall balance. There is a number of schools of thought regarding this matter. One argues in favor of curbing demand. The other is for increasing supply. As for our industrial policy, it seeks to improve supply and guide demand through continuous structural adjustments, thereby effecting a fundamental balance between the two. Second, reconcile local economies with the national economy. In recent years, as the power of local governments expanded, the conflict between the local quest for "comprehensive" development and a reasonable economic division of labor on a national basis has become sharper and sharper. To enable localities to really exploit their "comparative advantages" in the absence of sound market mechanisms and a sound circulation of production elements, we should determine the direction of regional economic development through the formulation of an industrial policy and nurture the growth of key sectors that enjoy regional advantages. This would be a practical way to integrate local interests with overall national interests. Third, reconcile planning with the market. In the future, we should reform the planning system in the mold of one that unites planning with the market dialectically and in which guidance planning

plays the dominant role. It will be an economic mechanism combining "competition," Chinese-style, with "intervention," a mechanism whereby the state regulates the market and the market guides the enterprise. By drawing up and implementing an industrial policy, we shall be able to resolve the conflict between planning and market and gradually establish a new relationship between the two. Also, we should be able to assess and determine how well planning and the market are adjusted to each other by looking at such indicators as the state of adjustment in the industrial structure, the speed of upgrading of the industrial structure, and macroeconomic performance. Fourth, link macroeconomic to microeconomic activities. In China, the conflict between macroeconomic and microeconomic behavior is mainly caused by the absence of clear objectives and appropriate guidance. The delegation of power to enterprises lacks unified standards. The criteria for macroeconomic control are not well defined. An industrial policy will successfully coordinate the macroeconomy with the microeconomy. It should provide a basis for relaxation and tightening in the macroeconomy, while the industrial organizational policy should provide standards to determine whether or not an enterprise is doing well.

The Goal Is to Adjust and Transform Industrial Structure

Question: What immediate problems will the industrial policy now being formulated zero in on?

Answer: For a long time to come, the basic goal of the industrial policy will be to adjust and transform the industrial structure, which is an important part of the economic development strategy put forward by the 13th National Party Congress. First, we must intensify the in-depth study of the proportionate relations between the primary, secondary, and tertiary industries and strive to bring about their coordinated growth. Second, we must step up research on the internal relations within each of the industries. Within the secondary industry, for instance, we should speed up the development of basic industries and the infrastructure, paying special attention to the energy, raw materials, transportation, and communications industries. This should be combined with a major push for the consumer goods industry. Machinery and electronics also should receive full attention because these industries provide the equipment necessary for technical advance in every industry. Second, the regional distribution of industrial development should command attention. Without a sound regional plan for the division of labor and a rational regional economic structure, we will not be able to achieve the ultimate goal of industrial structural adjustment. Finally, if we are to bring about the structural adjustment and transformation at all levels mentioned above, we must work hard to further the rationalization of the industrial organizational structure. Toward that end, not only must we make use of the market and competition, but we must also rely on all policies and tools fashioned by the state

and apply prices, finance, taxation, credit, and other economic levers to carry out regulation. That way our industrial policy will really succeed in integrating development with reform, planning with the market, and macroeconomic management with microeconomic vitalization.

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[Text] I. Certain Disputes on the Stock and Share System

Open mention of the stock and share system in the newspapers and magazines began more than a year ago; but as a theoretical problem for research, the beginning was a little earlier and it has been quite some time since reform and practices in this connection began in some regions in the country. Thus in Guangzhou and Shenzhen many joint stock companies were established rather early. According to incomplete statistics, there are over 6,000 enterprises under the shareholding system throughout the country.

Generally speaking, in the last 1 or 2 years in China support for advocating and carrying out the stockholding system has blown hot and cold. In the beginning, there was a loud outcry in favor of carrying out the stockholding system, literally a "stock fever," with many joint stock companies being established, and in some localities markets dealing in stock and share certificates were established. Subsequently, theoretical circles and departments in practical work expressed many different and dissenting views and a tidal wave of opposition and doubt appeared. More recently, the situation was reversed and the process went from "shine to rain" and from "rain to shine."

The disputes on the stock and share system reflect the different interpretation or understanding of the stock and share system. Some people said: Practicing the shareholding system is to raise funds. They believed that when enterprises floated shares in society, for the shareholders to earn dividends from the shares was exploitation and this would bring about a class of people in society living on interest earnings. Some other people contended that opening a share market would inevitably invite the presence of elements speculating in stocks and shares and that this would lead to the introduction of undesirable things from the capitalist countries. Furthermore, some people thought that implementing the stock and share system was tantamount to changing the social

ownership system, to practicing capitalism, and to practicing capitalist liberalism. And there were people who attacked the stock and share system as violating the constitution, and so on. In short, for a certain period the shareholding system was subjected to extremely severe and violent criticisms.

Can the above views stand? Hardly so, in my opinion. Under the stock and share system, the property ownership right of the enterprise is recognized and fixed by means of the share certificates. Being recognized, so-called, means to whom the property ownership right belongs while being fixed refers to the amount of the ownership right fixed. This is a scientific way of determining the nature and fixing the quantity of the ownership right. The system reforms the form of the ownership system but does not change the ownership system itself. Naturally there is a liaison between the stock and share system and capitalism, but we cannot simply decrie them as being equivalent. Shares may be "publicly owned" and may also be "privately owned"; the system can serve capitalism and can also serve socialism. It is of an intermediate nature and is devoid of any class character.

Deepening the reform of the enterprises requires separation of the two powers. After separation of the two powers or rights, there may be many different forms of the ownership system and of business operations. Leasing or hiring, contracting or shareholding refers to different forms or methods. Following a round of discussions and disputes, the problem of the stock and share system is now at last understood and recognized by the majority of people. Now, relevant departments of the government are drafting regulations governing the stock and share system and a socialist stock and share system is taken as a form of reforming the structure of the ownership system of the enterprises.

Naturally, under the conditions of a socialist commodity economy, there are still many concrete problems which need to be examined and probed concerning how to make use of the stock and share system and how to enforce the system.

II. Meaning, Nature, and Functions of a Stock and Share System

As mentioned above, the nature of the stock and share system is recognizing and fixing the ownership right. In the case of an enterprise with only one owner, such as an enterprise under the system of ownership by the whole people, the whole of the assets or share right belongs to the state and the property right is managed by a special department of the state. There is no problem concerning the recognition and determination of the property right of such an enterprise. Only if the enterprise has two or more owners does the problem of recognizing and fixing the ownership right arise.

Under the system of ownership by the whole people, the state represents the whole people in exercising the ownership right, and this is also known as "state-owned." Naturally, the State Council cannot itself exercise the ownership right of state-owned enterprises. In reality, the concrete representative of the state in exercising the ownership right could be different departments or different regions. If enterprises undertake lateral combination and if no changes are effected then possibly no problem will arise but in the case of the merging of enterprises of different departments or different regions, problems will arise. If the ownership system of these enterprises is not changed and the enterprises wish to be merged into the enterprise, then it will be necessary to resort to use of the stock and share system and use the stocks or shares to determine the owners. In the past, under the socialist public ownership system, the more "public" an enterprise was, the less people wished to take care of it and the assets problem was a mess with the result that after a number of years a "check of the assets and capital" had to be made. Also, it did not matter whether or not the input of assets could earn profits and investing was not concerned at all with the matter of benefits. But following the development of the commodity economy, ignoring benefits is no longer workable and nor is it possible not to clarify or determine who are the owners. The stock and share system may be said to be a scientific method of handling the relations of property rights. It is the inevitable product of the development of a commodity economy.

Some people expressed the belief that resorting to the stock and share system is for the purpose of raising funds. Marx also said that shareholding was the natural product of capital accumulation. But seen from the nature of the stock and share system, its more important role is in recognizing and fixing the property right. Even though fund raising is not involved, if the existing assets must be recognized and determined, the stock and share system must be adopted just the same. So long as several owners jointly own an enterprise, then the method of the shareholding system must be resorted to. I believe that the nature and functions of the stock and share system should be understood in this way.

Regarding the change in the operation mechanism of the enterprises now underway, the shareholding system is a relatively standardized form of separating government from enterprise functions and separation of the two powers. Naturally in leasing and contracting, separating government from enterprise functions and separation of the two powers can also be enforced but in leasing and contracting there is the problem of from whom should the contract or lease be obtained. Under the present structure, each and every enterprise is subordinate to a department in charge. Obviously, leasing or contracting should be sought from the relevant department in charge but this method goes against the direction of separating government from enterprise functions. In certain localities which enforce the contracting system, in order to

solve the financial difficulties, contracting is done outright by the department in charge (such as a specialized bureau) and sub-contracting is subsequently made to the enterprises. In such cases the departments in charge and the enterprises become a common body in interests and it is all the more difficult to separate government from enterprise functions. In enforcing separation of the two powers, adoption of the shareholding form provides the shareholders with definite rights and benefits but they cannot directly intervene in the enterprise's business decisions. Inside the enterprises under the stock and share system there is a definite legal form separating the ownership power and the management power. In general, the shareholders meeting elects a board of directors (if democratic management is practiced, the board of directors may be elected from the bottom upward such as the employees' representatives congress). The board of directors will then appoint a general managers. Important matters are decided on by the board of directors and the general manager is responsible for the daily management decisions and directing production. The shareholders generally possess only the benefit right but at the same time bear the risk of losses. These are all clearly provided for the "business law" and the company's articles of association. Hence, it is a relatively more standardized form of the separation of the two powers.

Naturally, since our country is still in the process of transition between the old and new structure, the stock and share system cannot immediately be pushed on a large scale. This does not mean that the system will forever stay in a minority position but rather, it must go through a budding and development process. Following the continuous development of our country's socialist commodity economy, the stock and share system will surely attain an even greater development. Viewing certain developed industrialized countries, 15 percent of their enterprises are stock companies and 85 percent are not, but seen from the volume of sales and that of profits, the situation is a reverse one, the stock companies accounting for 85 percent and non-stock companies, only 15 percent. This reflects that the process of raising and congregating funds is the natural trend of socializing, commercizing and modernizing production.

III. Regarding the Problem of Shares Jointly Owned by Labor

The stock and share system can serve capitalism and can also serve socialism. Socialist commodity economy is a commodity economy built on the basis of the public ownership system and since enforcing the stock and share system naturally has its own special features, there is an important significance in probing the shareholding system of enterprises under the public ownership system.

Theoretically speaking, the shareholding system in publicly owned enterprises should be the "system of shares jointly owned by labor." The Zhongqing Jialing Group made a careful calculation based on this pattern and

after discussions proved that it was workable. The special feature of this type of share system is that the enterprise's properties are partly owned by the whole people, partly owned by the collective, and, in addition, it accepts individual staff members and workers holding shares therein. In other words, it features the combination of three forms of share rights, namely, state-owned shares, enterprise's collectively owned shares, and shares owned by individual staff members and workers. These three kinds of share rights belong to three different levels of workers and therefore may be called the system of joint ownership by labor. It is a new development of the socialist public ownership system.

There are now violent disputes regarding "shares owned by the enterprise collectively." They represent share rights jointly owned by the whole body of workers of the enterprise. They are different from shares owned individually by the staff members or workers. The latter refer to shares subscribed to by the individual staff member or worker with cash. Shares owned by the enterprise collectively consist of properties formed by the enterprise's self-accumulations, belonging to the whole collective and not to individual constituents of the collective. Institution of this type of "enterprise collective shares" originated from the experiments on the share system made by the Shenyang Municipal Machine-building Bureau. They enforced the shareholding system among the large collective enterprises. The properties of these large collective enterprises are not formed by investments from the staff members or workers but are the enterprises' common properties accumulated through the years. These properties do not belong to the state, nor to any individual staff member or worker, but belong to the enterprises' collective labor. They call them "enterprise shares" or "enterprise collective shares." I consider this matter to be extremely significant and believe that it can be extended to enterprises under the system of ownership by the whole people. Enterprises owned by the whole people can also take the assets formed by their profit retentions through the years as "enterprise collective shares." Following implementation of this system of jointly owned shares, dividends on the state-owned shares should be given to the state, dividends on the enterprise shares should be retained by the enterprises to serve as a source of self-accumulation while the dividends on the shares of the staff members and workers should be given to the staff members and workers. At present the Jialing group is trying out this method. Throughout various places in the country many stock enterprises are also carrying out this method.

In carrying out the shareholding system, the enterprises have shown great interest in setting up "enterprise shares," because for many years we have been stressing that enterprises must have the ability to seek self-transformation and self-development but there has been no definite source for the funds needed for self-transformation but there has been no definite source for the funds needed for self-transformation and development. However, with the existence of the "enterprise shares," this

problem can be solved, yet among the theoretical circles and departments in actual practice there are people who oppose the setting up of "enterprise shares." Their reasons are mainly the following:

One view believes that enterprises owned by the whole people receive investment from the state and that profit yieldings can only belong to the state. In giving the enterprises profit retentions or after-tax profit retentions, the enterprises only have the power of allocating the funds and not owning them. If the change is made to have the enterprises own them, then it is tantamount to converting public ownership to private ownership. In my opinion, this contention does not hold. Marxism never acknowledges that capital creates profit. Profit is a portion of the new value accrual created by the workers. Its allocations to the workers may be wholly given to the representative of the whole body of workers, namely, the state (such as formerly the profits of enterprises owned by the people were wholly delivered to the state), or may be wholly given to the collective enterprise (such as the profit retentions of large collective enterprises) and can also be given in part to the state and a portion retained by the collective enterprise. Profit distribution is determined by the state's policy or it may be said to be decided internally by the working people. Profits do not absolutely or categorically belong only to the state as the investor. Another view contends that setting up enterprise shares will form a "system of ownership by the enterprise" which is a "regression" from the system of ownership by the whole people. Moreover, if the dividends of the state-owned shares are given to the state and the dividends of the enterprise-owned shares are given to the enterprise, this will increase the enterprise's share holdings. Continuation of this development will make the state's share smaller and smaller and the enterprise's share larger and larger. All in all there is a change in the enterprise's character. But this view is also untenable. Traditional concepts have taken ownership by the whole people as the highest form of the public ownership system. This has no scientific basis. Enterprise shares belonging to the ownership of the enterprise collectively is also a form of public ownership, and even though extended, to the extent that the enterprise comes under the "ownership by the enterprise," this does not damage the principle of socialism taking the public ownership system as the basis. Continuous increases or expansion in enterprise shares can precisely make the state's investment policy flexible. When the state decides on controlling the shares of important enterprises, it can invest in these enterprises with the accumulations formed by the dividends; if it does not intend to control the shares of those enterprises, the state can cease input of the dividends and can invest the accumulations in those enterprises which it wishes to control or which need support. As for that portion of the enterprises coming under the system of ownership by the enterprise which can take care of self-renovation and self-development, the state can wholly allow them to develop by themselves and centralize the funds on developing the weak links. What harm can this be to the state?

A third view argues that stock companies in foreign countries generally do not permit the enterprise to own shares of the enterprise, only to invest the capital funds in other enterprises. Thus, setting up enterprise shares violates the usual practices of the stock and share system. This reasoning also cannot stand. An enterprise uses the legal entity's properties which it owns to invest in other enterprises and thus forms "legal entity enterprise shares." Shares of this kind are very common in foreign countries. In the lateral combination of enterprise in our country, this kind of share has also appeared. This kind of share at least belongs to the "enterprise collective shares" of the enterprise concerned, forming the enterprise holding its own shares. This type of share-holding is clearly seldom seen in foreign companies but is not entirely unknown. In my opinion, the stock and share system involves a gradual development. The methods employed in foreign stock companies have also been developed and formed gradually. Why cannot we develop what foreign countries do not have? Moreover, since we are employing the method of the stock and share system under the socialist system, we can make the necessary transformation according to the special features of socialism. So long as there is harmony with the principles of socialism and benefit to developing the productive forces, what is wrong with it?

A fourth view contends that in the event an enterprise goes bankrupt and, after paying off its indebtedness, certain properties remain, then the leftover assets of the state-owned shares will be turned over to the state but how will the leftover properties of the enterprise shares be handled? If the shares are called "enterprise collective shares," then the likelihood is that the properties will be distributed to the staff members and workers. Will this not be converting public property into private property? This problem can be easily solved. Methods are determined by man. We can stipulate that in the event of an enterprise's bankruptcy, the enterprise share should be used first to pay off debts, following which there should not be any leftover properties. By so doing we can keep the state-owned shares from suffering large losses and stimulate the enterprise to collectively be concerned with the economic benefits. The Jialing group met with this problem and the financial department offered a solution calling for changing the name of "enterprise shares" into "enterprise publicly owned shares" and providing that so long as the enterprise does not go into bankruptcy the shares will forever be subjected to the enterprise's allocation. This method is also workable. Hence, the Jialing group renamed these shares "enterprise publicly owned shares." Still, we cannot do without the "enterprise collective shares," since groups absorb into their participation enterprises of a large collective nature. With large collective enterprises actually existing, so long as they are absorb into participation, their properties can only be "enterprise collective shares," the ultimate ownership right of which cannot be said to also belong to the state. In reality, regarding the problem of bankruptcy mentioned above, even if the share and stock system is not enforced, in the case of large collective enterprises,

after bankruptcy there similarly remains that problem of how to handle the leftover properties. Due to the objective existence of this type of "system of ownership by the enterprise" of large collectives (in the past roughly termed collective ownership system), through the formation of stock companies by means of lateral combination, inevitably there are "enterprise collective shares." This is a product developed by our country's public ownership system. It would be unrealistic not to acknowledge its existence.

As for the problem of the nature of staff members and workers subscribing to the shares, there are different ways of looking at it. If staff members and workers individually subscribe to the shares of the enterprise and then receive dividends from the shares, some comrades consider such shares privately owned shares that do not belong to the realm of the system of public ownership. In reality this is not so. In the staff members' and workers' subscription to shares, if the system enforced is one calling for equal amounts to everybody, or equal amounts with little variations, these kinds of shares are of the nature of a "cooperative economy." If enterprises owned by the whole people enforce the measure of their staff members and workers subscribing to the shares then it is equivalent to the structure of the ownership system having a constituent of cooperative economy added to it. Since all along we have treated cooperative economy as belonging to the realm of public ownership, how can it be said that subscription to shares on the part of staff members and workers carries the element of private ownership? When the staff members and workers of the enterprise concerned subscribe to its shares and also take part in work, the newly accrued value is their creation and for them to receive appropriate dividends does not contain the problem of taking advantage of other people's surplus labor.

Deepening the reform of the enterprises necessarily impinges on the reform of the form of the ownership system. Development of socialist commodity economy naturally requires a rational handling of the problem of the property right of the assets. In the enterprises of the public ownership system, there may be three different kinds of property rights: properties jointly owned by the aggregate body of workers are embodied in the "state-owned shares" owned by the whole people; properties jointly owned by a portion of the workers are embodied in the "enterprise collective shares" or also called the "enterprise publicly owned shares"; and the "individual shares of staff members and workers." The three belong to three different levels of workers, but all are under the public ownership system.

IV. Relating to the Problem of Floating Shares in Society

For the sake of raising funds, it should be permissible for enterprises under the system of stocks and shares to engage in share flotations in society, but undertaking the stock and share system and floating shares in society are two different things. In foreign countries there are many

stock companies but it does not mean that each and every stock company floats shares in the market. Similarly our stock companies may or may not issue and float shares.

Stocks and shares floated in society may be bought by any body. The state may purchase them and other enterprises or business units may purchase them. They all belong to the public and although dividends may be declared and paid on them, they are still publicly owned. There is no problem of anybody being censured for living on interest earnings.

It should be admitted that shares bought by private people in society are privately owned shares and, strictly speaking, the dividend earnings thereon may be interpreted as surplus value and not income from labor. However, whether or not we allow such a phenomenon to exist is not only a problem of whether or not the shareholding system is practiced but also a problem of whether or not the existence of the private ownership system is allowed. This is related to the problem of the nature of the stage our socialism is in, that is, in the initial stage of socialism and with the public ownership system as the basis, can or cannot a small quantity of the element of private ownership exist? It seems that the answer is an affirmative one. In the initial stage of socialism, allowing the existence of a small quantity of the element of private ownership is absolutely necessary. Since this is the case, it is not surprising that of the shares floated in society a portion is purchased by private individuals. As for a minority of people having too large an income from non-labor sources which may cause social injustice, it should be suitably regulated by means of the imposition of a cumulative income tax.

Taking society as a whole, assets under the system of public ownership occupy the premier place and the existence of a small amount of private ownership does not affect the nature of our society's socialist character. Similarly, in the case of an enterprise, if the publicly owned shares (including state-owned shares, enterprise collective shares, and staff members' and workers' individual shares) make up the major portion of the property right, to absorb a small part of privately owned shares does not affect the socialist character of the enterprise. So far as the individual is concerned, if he buys the shares of other enterprises or buys various kinds of securities and earns dividends therefrom, this is a sort of non-labor income but if this individual's income still mainly depends on labor then he cannot be said to be habitually living on dividend and interest earnings. He is still a worker. But if the major portion of his income comes from non-labor earnings, then the situation is different. However, these kinds of people are extremely scarce and in the initial stage of socialism their existence is permissible. Only people who illegally make money from usury are not allowed to exist. Regarding staff members and workers individually subscribing to shares of the same enterprise, the share dividend earnings, as mentioned above, embody a nature wholly different

from that of individuals in society buying shares. The income of staff members and workers of the same enterprise still depends on distribution according to work and even in the case of dividend income from the shares, it is also part of the income derived from collective labor and does not belong to the category of non-labor income. This kind of income is a material encouragement to the staff members and workers jointly sharing the burden of the risks of the enterprise's assets and manifests the principle of all-round material interests. Therefore, in carrying out the stock and share system, aside from the shares issued internally by the enterprise and carrying registered names of owners, floating non-registered shares in society for the purpose of raising funds and allowing the shares to be transferable and to circulate all constitute normal acts of an enterprise. For this reason, the opening of security markets is also necessary. Under the control of a socialist state and if there is a definite management system, in such markets speculative activities can also be easily prevented.

V. Regarding the Problem of the Stock and Share System of Enterprise Groups

The stock and share system is the product of a highly developed commodity economy. Our country is now situated in the initial stage of socialism and the commodity economy is exceedingly undeveloped. It would not be realistic to spread the stock and share system in a big way. It must go through pivoting points and the calibre of the pivoting points will have to depend on the concrete conditions. As of now, in enterprises under the system of collective ownership, the pivoting area can be slightly larger. In the case of share subscriptions by staff members and workers of enterprises under the unitary system of ownership by the whole people, the scale can also be larger; but enterprises undertaking lateral combination, particularly enterprises forming groups or syndicates, are most suited to the adoption of the shareholding form.

Combination of enterprises has different forms and different stages of development. In general, they all start with the combination of production and carrying out specialized production and the next step will be extended to combined management, that is, combination operations in production, supply, and marketing. In both of these stages, the principle of "three nonchanges" is usually adopted, that is, subordinate relationship unchanged, finance and taxation channels unchanged, and ownership system unchanged. However, if the enterprise intends to further develop and expand the degree of socialization, commercialization, and modernization, this principle of "three nonchanges" frequently becomes a hindrance. Hence, a higher form of combination is needed and this includes combination of capital funds and assets. A so-called enterprise group should be this type of combination of a high-grade stature. If the name group is given to combinations in the first two stages, then there would be too many of them and this would be meaningless.

Enterprise groups should aim at breaking the "three nonchanges" and carrying out the combination of funds. Between them, their closely knitted stratum, semi-closely knitted stratum, and loosely knitted stratum should be distinguished by the extent of the combination of their funds. And enforcing the combination of funds necessarily requires the adoption of the share holding system to solve the problem of the property-right relations.

The nucleus stratum of an enterprise group should be a "mother company" which owns all the assets. If this economic body is formed by the combination of several enterprises, their assets must be merged. The original owners of the assets will separately be the shareholders of the company, each having a fixed amount of share right. This will break the "three nonchanges," and at the same time solve the condition of the demarcation of the ownership right between the departments and the regions. Thus, different owners will become shareholders and be merged into a single body in the shareholders meeting. For example, the nucleus stratum of the Jialing group was formed by five enterprises of which the share right of the state-owned shares belonged to the Ministry of Finance in part and the State Machine-Build Commission in part and also to the Chongqing city in part. They all joined together to form the shareholders' "property right committee," exercising the rights and functions of the ownership right.

The closely knitted stratum of an enterprise group comprises "branch companies" whose shares are controlled by the group. The assets of a branch company belong in whole or in a large part to the "mother company," but the company, as a legal entity, operates independently. Through exercising its property rights, the "mother company" exerts a definite control over the "branch companies."

The semi-closely knitted stratum of an enterprise group consists of related enterprises in which the group possesses shares through investment. These enterprises are also independent legal entities and the group also exerts definite control over them by means of the property right or a certain kind of agreement.

The loosely knitted stratum of an enterprise group comprises mainly a number of enterprises with fixed cooperative or business relations. Between them no investment relations exist but there may be such relations as merging of their funds.

A group is different from the usual run of combination bodies. Its special feature is the combination of funds, but one point must be clarified and this is that formation of an enterprise group must go through the combination of two or more enterprises with independent legal entity status. If the assets of several enterprises are merged into a single body and form a new economic entity, then an independent legal entity is formed but if in its outer ring there are no "branch companies" or "associated companies," then this new setup is only a "joint enterprise" or

a "joint body of enterprises," and should not be known as an enterprise group. This type of joint enterprise can also carry out the stock and share system, in which case it will be only a simple stock company and not a company or enterprise group.

VI. Regarding The Problem of Legal Entity

At present, the formation of a stock company meets with a rather big ideological hindrance and this concerns the problem of interpreting correctly the status of a legal entity. Existing enterprises, when intending to join an enterprise group, are rather apprehensive about losing the status of a legal entity. They believe that if an enterprise loses the status of a legal entity, then it is "downgraded" and may lose the decisionmaking power in management.

What is a legal entity. Due to our current legal system being still imperfect, we are accustomed to a literal interpretation of words without really grasping their exact content. The general rules of the civil codes which our country has promulgated have designated a scientific definition of a legal entity. In essence legal entity has reference to the problem of properties and not to the problem of decisionmaking power. If an enterprise wishes to obtain legal entity status, it must have its properties registered and hence the properties become in law the legal entity's properties. If debts are incurred, then these properties will serve as compensation and fulfill the legal obligations and responsibilities. A legal entity is different from a natural person and is an abstract concept. Natural persons who are shareholders can change every day but the legal fixed properties of an enterprise do not change. In law, they are treated as an "entity" bestowed with the right, benefits, and obligations of properties and hence they are known as a "legal entity."

At present when people discuss the stock and share system, they believe that the merit of the system is that it "personifies" capital, meaning that capital is under the control of a concrete person. That the stock and share system definitely recognizes and fixes the ownership right of owners is certainly clarified but this cannot be explained as capital being personified. "Personification's" meaning is precisely the opposite of this understanding. When Marx talked about the personifying of capital, he meant to say that in an enterprise, capital itself was like a capitalist, lording over and enslaving the workers. His use of the word "personifying" to describe this situation was precisely in the abstract sense and had no concrete meaning but it was synonymous with the concept in law of the legal entity. As for capital, it is invested by many capitalists but when capitalists exploit the workers, the capitalists themselves are not on the spot and the exploitation is done through the capital. The reason capital is termed "personified" is because capital is a "material thing" and this "thing" is falsely likened to being a "person." Hence Marx was of the

opinion that in a capitalist enterprise an abnormal phenomenon was formed of dead labor ruling over living labor, that is, a material "thing" lording it over a "person."

Similarly, due to the concept of the legal entity still not being made clear, there also arise problems of unclear concepts of the current sayings about the enterprise's autonomy in management and being solely responsible for its own profits and losses. After all who makes the decision on management, who is responsible for the profits and losses, and whom does "self" indicate? The answer is the enterprise. But who is the enterprise? Under the system of ownership by the whole people, properties belong to the state. And how can the enterprise be responsible for its own profits and losses? In the case of bankruptcy, whose properties are bankrupt? Bankruptcy or deficits both refer to loss of "capital," and whoever owns the capital suffers the loss. Is the plant head or manager able to bear the responsibility of profits or losses? Which plant head can stand the losses? If the stock and share system is enforced, this "capital" belongs to the shareholders and the investors' (including the state). Investing the assets in an enterprise is an act that involves risks. They should place the assets in the hands of a reliable manager to manage. A good performance by the manager will yield dividends, otherwise the loss suffered will have to be shared. Assets, after being invested, become the properties of the enterprise legal entity which, in terms of law, must bear the properties' rights, benefits, and obligations. In the event of bankruptcy, the enterprise will make use of the legal entity's properties, which it holds, as compensation. This is the meaning of being solely responsible for the profits and losses. Next, is there any connection between the stock and share system and autonomous power? In my opinion, there is no direct relation. Assuming that three enterprises combine to organize a principal company, it is a legal entity. The original enterprises separately become branch companies and are no longer legal entities. But this legal entity, the principal company, internally can arrange to delegate power and can endow power to the branch companies to exercise the legal entity's rights and obligations and the branch company will still have a large decisionmaking power in management, but financial relations are under the responsibility of the principal company which is also responsible for the ultimate profits or losses. But this is not true with the independent sub-companies under a company group. They are independent legal entities. If bankrupt, the properties owned as a legal entity by the sub-company will be used as compensation. The principal company, aside from losing the assets invested, may not hold any excess responsibility. The key to holding or not holding a legal entity's status lies in these property relations and has no direct relation to the determination and existence of the management rights.

VII. The Essential Conditions in Macroeconomic Control when Enforcing the Stock and Share System

Enforcement of the stock and share system requires certain definite exterior conditions and necessary reform must be made in macro-economic control and management. Principally three problems must be solved: they are—separation of profits and taxes, separation of investments and loans, and separation of the government's administrative functions from the state's financial control functions.

1. Regarding separation of profits and taxes.

Enforcement of the stock and share system calls for paying dividends to the shares. Since there are state-owned shares in a stock company, naturally dividends must be given to these shares. But this generates conflict with the existing taxation system. In recent years, in enforcing the measure of tax in lieu of profit, the profits which enterprises owned by the whole people must deliver to the state are incorporated into the tax channel. If the original tax rates are not changed and the state further demands dividends from the enterprise's profits, this will surely affect the enterprise's interests and is definitely not workable. Interest and tax originally belong to two different economic spheres. As an administrative and controlling structure, the state has the right and power to collect taxes and all enterprises (including enterprises under the system of ownership by the whole people and those under other ownership systems) have the obligation to pay taxes. In facing national taxes, all people are equal and there should not be a separate tax for a separate plant or unit. The state being the representative of the whole people, it has the right to receive dividends from the profits obtained by enterprises owned by the whole people and also the obligation of sharing the losses or deficits. The size of the dividends is determined by the amount of the investment and the enterprise's profit or loss conditions, and a separate dividend rate declared by a separate plant or unit is a universal truth. To mingle by force these economic areas of different natures and to follow up in compensation with the institution of the regulation tax, thus causing a separate tax for a separate plant and frequently punishing the good performers with a specially heavy tax, must be criticized as extremely irrational. Enforcement of the stock and share system will inevitably demand the separation again of tax and profit, each to take its own channel. In the pivoting points, at the least we must lower the income tax and follow up with providing the state with the income it should have by means of the channel of paying dividends to state-owned shares.

2. Regarding separation of investments and loans.

During these years, in order to push the enterprise's concern with the investment benefits, the method of changing appropriations into loans has been adopted, that is, state investments are changed from making financial appropriations to loans by banks, thereby making the enterprise bear the loan interest. What the actual results of such a method are is still worth studying. But to mix together these two economic areas of investment

and loans which have a different character gives rise to many problems. Investment is an act of the capital owner and is also an act fraught with risks. Turning over an investment to the entrepreneur to manage may bring profits and also may cause losses. In the event of profit, the investor has the benefit right; whereas in the event of loss, the investor will naturally suffer losses. Loans have debit and credit relations and also have definite risks, though different from investments. When an enterprise goes bankrupt, the difference between the two is most obvious. When an enterprise is bankrupt, the legal entity's properties should be used to repay the debts. Since the legal entity's properties come from the investor, he is on the side of the debtors. The lender is the creditor. He has the right to obtain from the legal entity's properties the portion that he should get. Actually, if a newly established enterprise is completely dependent on loans for its establishment and if at its completion the assets formed are worth 1 million yuan and the debts are also 1 million yuan, it then should be said that on the first day of its completion, it should declare bankruptcy. In addition, there is the problem of repaying loans. Whether it should be loan repayment before tax or loan repayment after tax is also confusing in regard to responsibility, right, and interest. Enforcement of the stock and share system necessarily requires the separation of investment from loan. As an owner of funds, definite investments must be made. To the state they constitute appropriations, forming the basic assets, following which bank loans should serve as supplementary. Loan repayment should be taken from the profits. The assets formed from the loans should be taken as the investor's additional shares or value-increment to his shares. Only by so doing can the property relations be rationally handled.

3. Regarding separation of administrative functions from financial functions.

Separation of profit and tax in essence demands separation of "government administration" from "finance," that is, separation of government's administrative and control functions (political) from the state's financial control functions (financial).

Socialist states have the administrative functions of managing the economy, including the functions of regulating and controlling the economy. These kinds of administrative management functions have all enterprises as their objects, and be they state-owned enterprises, or collective enterprises, or privately owned enterprises, Sino-foreign jointly invested enterprises, and so forth, they are all subject to the state's administrative management. In this regard, we must enforce separation of government from enterprise functions and cannot allow the government to directly interfere in an enterprise's production, management, and control activities.

Socialist states also have the functions of representing the whole people to control the possessions of the whole people, that is, the state-owned properties. These functions do not apply to all enterprises; rather, they constitute management of the property rights in enterprises

invested in by the state. This type of management and control should be separated from administrative management and control and internally in the enterprises separation of the two rights of ownership and management should be enforced.

The existing structure mingles together the two kinds of functions mentioned above and causes many drawbacks among which the non-separation between tax and profit is an example of this mix-up. The rational method should be for the government's economic control departments to exercise the general administrative and control functions, such as the industry and commerce administrative control bureau exercising control over the various kinds of enterprises. Planning, taxation, commodity prices, labor departments and so forth should also exercise unified control over the various kinds of enterprises. Control departments of specialized trades should exercise the functions of controlling the trades and not serve as departments in charge of the enterprises.

Aside from administrative control, various kinds of state investment companies should be established to carry out investments of state-owned assets and post-investment management of the property right. These kinds of companies should take up the tasks of increasing the value of the assets and use the funds from the increased value to expand re-investment in expanded reproduction. Only through the investment companies taking charge of the state-owned properties can the state's investment acts be transformed from being administrative acts to being economic acts, enabling the socialist commodity economy to smoothly develop in accordance with the objective laws of commodity economy. Only with this kind of investment company taking charge of the state-owned shares of stock companies can there be an effective development of the stock and share system.

PROVINCIAL

Heilongjiang Governor Holds Press Conference

SK091134 Harbin HEILONGJIANG RIBAO in Chinese
24 Jan 88 pp 1, 2

[Excerpt] "In this election of leading persons of the provincial-level state organs, 1 and six vice-governors were elected. This showed the trust and expectations of the people of various nationalities throughout the province. We are determined to live up to the people's great trust, carry forward the revolutionary cause, and forge ahead into the future, deepen reform, work hard with a pioneering spirit, and strive to further develop, build, and revitalize Heilongjiang."

This was the desire expressed by Hou Jie, who was elected once again as provincial governor at the first session of the seventh provincial people's congress, at a press conference on 23 January.

Attending the press conference were journalists from provincial-level press units, such as HEILONGJIANG RIBAO, the Heilongjiang People's Broadcasting Station, and the Heilongjiang Television Station, and those from central press units stationed in our province.

Provincial Governor Hou Jie, and Provincial Vice-Governors Chen Yunlin, Du Xianzhong, Shao Qihui, and Dai Moan answered questions raised by reporters.

Reporter: Comrade Hou Jie, do you have any plans concerning emancipation of the mind and deepening reform now that you have been elected as provincial governor once again?

Hou Jie: I feel that Heilongjiang's work, in particular work related to emancipation of the mind, is inadequate in many areas. During this session, the deputies offered many criticisms and suggestions concerning our work, and we are very grateful for this. We should not take Heilongjiang's backwardness for granted just because Heilongjiang is located in northeast China where the weather is cold. We should note that we have our own advantages and foundation, which constitute favorable conditions for revitalizing Heilongjiang. We, the members of the new leading body, plan to conduct investigations in coastal areas to broaden our field of vision, emancipate our minds, enliven our province's economy, turn our advantages in resources into economic advantages, and push the various work of our province to a new stage.

Reporter: What were the reasons for last year's price hikes and our failure to control prices? What are the measures that the new government plans to adopt?

Hou Jie: Commodity prices are a sensitive issue. Everyone is excited when talking about commodity prices. For a while, commodity prices did rise rather inordinately in our province. We should note that there were numerous reasons for this. For example, we failed to control the prices of the means of production properly after we allowed some of them to be sold in markets, some state enterprises took the lead in raising prices, and so forth. We have recently exerted great efforts to solve this problem, and the price hike index has declined. We will continue to adopt measures to stabilize prices.

Reporter: The next 5 years are important for our province in changing its old economic pattern into a new pattern. What are the plans of this government, and how will it facilitate this change?

Hou Jie: Changing the old economic pattern into a new one is a very important issue for our province. We have already started this work. During the previous stage, we reformed the distribution system within enterprises, adopted the contract and the leasing systems, and effected a change in managerial methods. Of course, this was not enough. In the future, we will start with reform of the managerial methods of the provincial government

to enable it to better perform its function of serving the grassroots, and will work out corresponding and effective measures to facilitate this change. Provincial Vice Governor Chen Yunlin is responsible for structural reform and is concentrating on studying this issue. We need to hold further discussions. In the present economic structural reform, being a "raw material province" is Heilongjiang's problem. The central authorities recently conducted a study and will adopt some special policies to promote economic reform of the "natural resource provinces." This, no doubt, will be very beneficial to us.

Reporter: Our province is a grain production base with very favorable conditions for developing pig production. However, there is currently a pork shortage. What are the major factors that effect pig production and what measures do you plan to adopt to develop pig production?

Hou Jie: The current strained pork supply is due to problems in our work and also some objective factors. It will take time for our province to attain self-reliance in our meat supply. We have a large population in urban areas. On an average, 1.6 peasants support 1 urban person (including other nonagricultural population). The burden is rather heavy.

The supply and price of feed are also problems that hinder our province's pig production. As far as peasants are concerned, raising 1 pig is not better than raising 10 chickens, and therefore their enthusiasm is dampened. We will raise the pig purchasing price at an opportune time while keeping the pig marketing price unchanged. Of course, this is still an old method, and we will need state subsidies. Further discussions are still needed concerning how to grant subsidies—whether to issue subsidies according to the number of persons or according to the amount of wages. We will continue to adhere to preferential and encouraging policies. We are preparing to adopt some measures to encourage pig production. A document will be adopted and issued soon.

Reporter: Everyone is very concerned about housing reform. When will our province popularize it?

Hou Jie: In the past, our province lacked an adequate estimation of the situation in housing reform, and everyone still feels great difficulty after typical examples come out. General Secretary Zhao Ziyang pointed out recently that housing reform should be carried out throughout the country over the next 3 years. We will act according to this requirement and resolve this issue over the next 3 years. We are preparing to select some areas to conduct several types of experimentation. There are many examples in housing reform, such as the examples of Yantai and Liaoning. We are preparing to try them out and adopt any pattern that suits our province best. Of course, the province does not have to popularize one pattern alone.

Reporter: Comrade Hou Jie, you have just talked about the solid work you plan to do for the people throughout the province within your tenure. Please give more details about this.

Hou Jie: I believe that to do solid work for the people, we have to first enliven the economy and increase revenues. Only when we have substantial financial resources can we do solid work for the people. Our province is rather backward in science and technology, education, culture, and public utilities, in particular in education. We have now put forward a principle that education is the foundation for developing the province. However, we are very anxious because education investment is strained. How should we accelerate development of education? The prerequisite is that we should have substantial economic strength to support it. We have put forward the call for developing "the six backbone industries." The purpose is to increase our economic strength to do more solid work for the people.

Reporter: Comrade Hou Jie, can you tell us how the work will be divided among the several provincial vice governors?

Hou Jie: We have not yet studied this question. However, I can say that Vice Governor Chen Yunlin was in charge of the day-to-day work and assisted me with financial and planning work in the past, and since Vice Governor Liu Zhongli has been assigned by the central authorities to another post, Vice Governor Chen will have to take charge of Liu Zhongli's work. Vice Governor An Zhendong is fairly familiar with industry, and was in charge of it in the past. Being a veteran vice governor, he will have to attend to capital construction and other work in many fields. Vice Governor Du Xianzhong was in charge of financial, political, and legal work in the past. Vice Governor Shao Qihui is very familiar with industry, but has been in charge of party affairs for a long time. He just arrived from Qiqihar yesterday afternoon, and we still do not have the chance to talk with him. We have to be democratic (laughter). Vice Governor Dai Moan used to be the director of the Education Commission, but he is specialized in agriculture and engaged in the agricultural economy. I think his fate is determined (laughter). Comrade Huang Feng has not returned yet. He has been engaged in cultural and propaganda work for a long time, and is suitable to take charge of work in the fields of culture, education, and public health. It seems that we have to rely on him in the work in these fields. However, we still have to hold discussions (laughter).

Reporter: How can you build the new government into a compact, highly-efficient, and multi-functional government that has little bureaucracy, and serve the grassroots and the people wholeheartedly?

Hou Jie: This question is very important. Judging from the current situation, the provincial government is unwieldy and overstaffed, and its work efficiency is low.

This is a big problem. We have disbanded organs every year, but they appear the next year. This time, we will establish organs in line with actual needs and simplify the unwieldy and overstaffed organs. We will particularly enhance government personnel's sense of being public servants and improve their quality so that they will serve grassroots units and work for the masses. We hope that journalists will criticize and help government work.

Reporter: Does the new government have any ideas on how to solve the problem of personnel outflow?

Hou Jie: This problem has to be solved through the efforts of two sides. We will strive to create favorable work and living conditions for intellectuals and scientific and technical personnel. We also hope that persons with noble aspirations will take root in and build Heilongjiang.

Reporter: As far as I know, about 50 percent of our province's plans are mandatory. Will this affect our development of the commodity economy?

Hou Jie: As far as the entire country is concerned, mandatory plans amount to about 20 percent, but in our province they amount to 52 percent. This is because, in our country, raw material production cost is stable, but the prices of the products of intensified processing industries float. This is one reason why our province's economy has developed slowly. The other day as I was talking with a comrade of the state Commission for Restructuring of the Economy, I asked if reform of raw material prices can be carried out earlier. With a little increase in raw material prices, our Heilongjiang Province would become far better off and our economy would develop more quickly. For example, the factory price of refined sugar was 0.60 yuan per jin 30 years ago; it is still 0.60 yuan per jin now. The market retail price is 0.81 yuan per jin. Now, even grandmothers have complaints, saying that, in the past, 2 jin of apples was equal to 1 jin of refined sugar, but now 2 jin of refined sugar is equal to 1 jin of apples. However, when the price of sugar is changed, the prices of more than 3,000 kinds of products in the country will have to change. In this way, commodity prices will not be stable. At present, sugar refining is still a loss-making industry in Heilongjiang, but we have to take the overall situation into account.

Reporter: You were reelected consecutively. This shows that the masses have great trust in you. What do you think about this?

Hou Jie: First, I thank the masses for their trust. I was born and grew up in Heilongjiang. I am prepared to devote all my efforts to the people of Heilongjiang. As members of this government, we are determined to do our work with utmost efforts and promote our province's economic construction, science, culture, and education.

FINANCE, BANKING

Liu Hongru on 'Major Issues,' Furthering Financial Reforms

40060090 Beijing ZHONGGUO JINGJI TIZHI GAIGE
[CHINA ECONOMIC SYSTEM REFORM] in Chinese
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[Article by Liu Hongru [0491 7703 0320], vice president of the People's Bank of China: "Financial Reform Must Tackle Excessive Demand and Over-investment"]

[Text] Financial reform must proceed in coordination with the overall plan for economic structural reform next year. The guiding principles and main substance of financial reform include the following:

1. Progress in Financial Reform and Major Issues Facing Us Today.

In accordance with Comrade Deng Xiaoping's 1979 instruction, "Banks must be run as real banks," China's financial sector has begun an all-round experiment in reform, covering credit, interest rates, account settlement, and financial management. After 9 years of reform, a central banking system has taken shape and a primary financial market has developed in China. A number of inter-bank lending networks, based on urban centers, have emerged and 63.4 billion yuan worth of bonds of all types have been issued. Based on the principles of integrating responsibilities with rights and interests, economic responsibility systems and contract systems of all forms and shapes have been implemented and an experiment is now under way in the commercialization of special banks. In the area of interest rates, preliminary reforms have been made. The overall level of interest rates is now higher and the interest rate structure has been adjusted; interest rates have begun to function as a regulator of fund supply and demand. Responding to the needs of China's diversified economic forms and their different operating methods, financial institutions have had a chance to grow. Nationwide, over 500 non-bank financial institutions, including trust investment companies, finance companies, financial service companies, and leasing companies have been set up. The number of urban credit unions has topped 1,500, while that of rural credit unions now almost exceeds 60,000. The beginnings of inter-bank business duplication and competition have emerged, which has done much to improve the efficiency and quality of financial services. The domestic insurance industry has been revived, foreign insurance services have developed, and the rudiments of a socialist economic compensation system are now in place. As China's planned commodity economy grows and financial reforms become more thoroughgoing, finance will play a larger and larger role in the economy. At present the total amount of loans made by the banking system has already reached 800 billion yuan. In 1986, banks accounted for 68.4 percent of all short-term loans extended by the national treasury and banks to finance production and construction, up

from 23.4 percent in 1978. The role of finance in macroeconomic management too is increasingly important. Today the direction, principles, and guiding ideas of and priorities in financial reform are clear. In accordance with the instructions of the CPC Central Committee and the State Council, we are now carrying out pilot projects in 27 cities and special economic zones across the nation, and hope to apply the experience everywhere. As financial reform enters a more advanced stage, it naturally becomes more arduous.

The main problem currently facing financial reform is the failure to fundamentally curb an excessive demand and an inflated money supply. The reason is that excesses in investment and consumption have not been brought under effective control. Over-investment and over-consumption inevitably lead to more currency being pumped into the money supply, causing large-scale price increases. Therefore, the solution to the demand explosion must take into consideration the overall picture, including the planning, financial, and investment systems, and must be coordinated with reform. Certainly, in a planned commodity economy, government under-utilization of financial tools is itself a factor that cannot be overlooked. Any money in circulation (including bank deposits) finds its way into the money supply through the credit process. Money supply is a critical indicator in a commodity economy. It thus follows that strengthening the finance sector's regulatory and control function in the macroeconomy represents an effective means to balance the macroeconomy. The development of a planned commodity economy in China requires that we speed up financial reform and put together without delay a financial regulatory and control system that can rein in the macroeconomy while stimulating the microeconomy.

2. Further Financial Reform, Control Total Volume, Adjust the Structure.

Judging from the plan next year, there will be a significant shortfall in both working capital loans and fixed assets loans. In the interest of stable economic growth and successful economic reform, it has now become a top priority in all economic work to maintain market price stability. The CPC Central Committee has decided to tighten the money supply and credit appropriately next year by holding the volume of money at a level required by normal economic growth. This is a daunting and profoundly significant task. To achieve our goal next year, we must go to work now by making a difference in the last quarter this year because excessive demand accumulates over the years. We must opt for "soft landing" to avoid "slamming the brakes on," which would be too traumatic for the economy. We figure that if the amount of money issued this year can be kept near the projected level, our work next year will be a little easier. We have now taken a series of steps, and all special banks are in the process of planning and implementing them.

There are conditions for achieving retrenchment next year. The present funding situation is this. On the one hand, the money supply has been growing faster than the economy, resulting in an inflated demand. On the other hand, there has been a shortage of funds and every quarter is scrambling for them. Clearly the problem has more to do with the structure of funds and the returns on funds than with the overall amount of funds available. This phenomenon—unreasonable use of funds coexisting with fund shortages—resulted from a lack of coordination between reforms. Thus the only way to keep the lid on total volume while ensuring funds for legitimate production and construction is to take reform one step further.

1) Strengthen the central bank's macroeconomic regulatory and control function. To begin with, improve its regulatory and control mechanisms. Since the central bank will increase the amount of new loans by only a small margin next year, and in order to make effective use of basic funds (that is, funds at the disposal of the People's Bank of China), we demand that all special banks balance their funds on their own and extend loans in accordance with their fund sources. The People's Bank of China will no longer be responsible for supplying special banks with funds. Loans made by the central bank should be subject to management-by-deadline; they must be repaid within a specified time. During the loan period, special banks may carry a loan over from one year to the next. The central bank should gradually reduce the number of unsecured loans it makes, at the same time increasing the proportion of rediscount loans and short-term loans financed by bonds. It should control the total volume through the market and by regulating the structure. The reserve fund system should be improved so that over time different kinds of deposits would fetch different deposit reserve fund rates. Overhaul the interest rate structure to bring out the regulatory effects of interest rates even more. Strengthen the management of the assets and liabilities of banks, non-bank financial institutions, and urban and rural credit unions. Step up statistical and informational work so that the money supply can be regulated flexibly and promptly in light of the economic situation.

There is yet another important issue concerning the strengthening of the macroeconomic regulatory function of finance, namely the maintenance of the relative independence of banks. If banks do not have due autonomy in making loans, they will be ill equipped to stabilize the currency and commodity prices. There are two aspects to this matter. First, a bank should not be forced to make a loan. A bank makes a loan only when it is assured that the loan is secure, profitable, and will be repaid on schedule. Second, the relationship between banks and the government treasury should be one of coordination and mutual restraint. The purpose is to check inflation and maintain stable, sustained economic growth. When the state runs up a deficit in its budget, the government should try to balance its accounts by issuing state bonds. The greatest advantage of this approach is that the total

amount of currency in circulation will remain unchanged since the state only retrieves some of the money in circulation for use by the treasury. If we persist in the old way—banks over-drafting and borrowing, then the inevitable outcome will be a demand explosion and a reduced ability by the central bank to control the total money supply. Financial activities are highly opaque, unlike the fiscal activity of balancing income with expenditures, which is clear at a glance. Thus discrepancies are easily covered up, only to cause a good deal of trouble in the future. We must not do that, particularly not under the present circumstances.

2) Develop and perfect a financial market. Further develop and expand lending between financial institutions and create a market system consisting of visible and invisible components, with the latter in the dominant role. Make full use of all kinds of commercial instruments. Lower the costs of lending. Improve the efficiency of short-term lending. Building on the existing short-term lending networks, we must concentrate on the development of inter-system, inter-regional short-term lending in the future, promote horizontal fund circulation, and gradually develop a number of regional financial centers based on urban centers so that funds can crisscross the nation in a free flow. That way, fund circulation can be speeded up to make up for its shortage.

Develop a short-term notes and bonds market. Allow enterprises to issue bonds to raise working capital and encourage them to look toward the market for funds. Increase the portion of short-term loans directly raised on the market. Gradually bring an end to the role of banks as the supplier of funds for enterprises. Push for the use of notes as commercial credit. Open up commercial paper acceptance, discount, and rediscount services. An enterprise's buying and selling activities should be linked to the way funds are distributed. Stop enterprises from falling behind in their payments to one another wilfully.

In light of the reform in the investment system next year, we should seriously tackle loan management and get a handle on the long-term fund market. Vitalize long-term funding. At present the problems in fixed assets investment are these: excessive investments overall, unsound structure, and poor returns on fund use. To turn the situation around, the CPC Central Committee has decided that capital construction investments within the national budget should come under fund management whereby the Construction Bank and investment companies would be responsible for using and recouping the investment and ensuring its added value. That way, the investment becomes both money from the treasury and credit from a financial institution. Investment priorities would be the infrastructure, basic industries, and the technological transformation of mainstay enterprises. The Construction Bank and other banks should be allowed to engage in their regular investment activities on their own, selecting the best projects based on fund

availability and the projects' expected returns, provided that they hold the line on total investment. The state should give them guidance via the industrial policy, industrial planning, investment laws and regulations, and economic policies. Banks and other financial institutions should establish a responsibility system and set a long-term investment to long-term liability ratio.

Even as we strengthen loan management, we should also develop the long-term fund-market under sound leadership. Next year we must develop a long-term fund market in order to attract investments to key projects in the infrastructure that would otherwise have gone into non-productive construction and processing industries, and adjust the industrial structure. We must develop a long-term fund market also to attract the surplus consumption funds and deferrable consumption funds in the hands of the masses, channeling them into national construction to ease the construction fund shortage and lessen market pressures. The most important long-term fund market is the bond market. If necessary, some money can be taken from the fund to subsidize interest rates. The bond market is where investments can be pooled in support of national construction. This approach will help us achieve an overall balance between investments within the budget and investments outside and make up for the shortfall in government investments. It will help stimulate the long-term fund market, regulate the investment mix, and determine the direction of investments. It also will contribute to linking the responsibilities of investment with its rights and interests and improving investment returns. In conjunction with the State Planning Commission and other agencies concerned, the People's Bank should balance the total social fund and, taking into account society's ability to pay, work out the scale of bonds to be issued and the issue ratios between different kinds of bonds and assign the tasks to issuing units like investment companies and key enterprises. At the same time, a major effort should be made to develop contractual savings institutions like life insurance, pension fund, and retirement fund to tap the sources of long-term funds. The issue of public stock between state-owned enterprises is another important way to support key construction. We must continue to do a good job in pilot projects on the raising of short-term capital stock. In particular, we must expand the pilot projects in a number of joint enterprises.

The transfer of bonds and public stock must be facilitated so that circulation can act as a boost to issue. The problem now is that the absence of a circulation market, which has yet to come into being, directly hampers bond issue. Next year, therefore, we must open up a circulation market for marketable securities under good leadership step by step. A circulation market for national debt too must be created next year to stimulate long-term fund and find a way to get rid of the budget deficit. In tandem with the appearance of circulation markets, we must also establish intermediate institutions like securities companies that would specialize in doing business on the market to improve the fundamental efficiency of

the market. Moreover, enterprise credit rating organizations must be created to standardize the issue of bonds and stock. These institutions exist to serve the market and will constitute a powerful instrument in the hands of the central bank to guide the direction of capital flow and regulate the money supply.

As the financial market grows and expands, we need to step up its management and guidance. To begin with, as the scale of direct short-term fund-raising expands, it has an increasing impact on indirect short-term fund-raising. The central bank must plan comprehensively on the macroeconomic level, determine what would be a reasonable magnitude for direct short-term funding-raising, and exercise strict supervision over issuing units. Second, another way to exercise guidance and leadership is by controlling the interest rates of bonds and steering capital toward the state's priority projects. Third, management regulations and laws relating to the financial market, bonds, and stock must be drawn up as soon as possible. The financial market must be regulated in accordance with the law. Those who violate a law or regulation must be punished by paying a fine or interest, and ultimately by being denied entry to the market. Personnel have been assigned to work on this.

3) Further the commercialization of special banks. The thrust of reform in special banks is commercialization—gradually turning them into self-managed enterprises that are responsible for their own profits and losses, assume risks on their own, and balance their own funds. The commercialization of special banks is an important condition for vitalizing the financial sector and strengthening bank operating mechanisms. It is also the microeconomic base for perfecting indirect regulation and control by the central bank. But the commercialization of special banks is fraught with difficulties and requires that a host of internal and external relationships be smoothed out. We must work hard to achieve some adjustments and reforms next year on condition that government revenues will not be affected. But our priority is to establish a managerial responsibility system within the banks, reinforce their operating mechanism, and gradually eliminate the egalitarianism affecting profit distribution inside special banks so that the business results of an operating unit has a direct bearing on its own interests. Operating units must assume the risks and liabilities of lending. A good risk system should be established. Loans should be made on the basis of an enterprise's performance and ability to repay. At the same time, business duplication and competition must be furthered. The standard of operations and management and the quality of financial services must be improved.

4) Improve the working-capital loan system and tighten restrictions on lending. In conjunction with the implementation of the enterprise contracted responsibility system and the reform of the goods and materials supply system, we must put an end to the practice of banks supplying all the funds required by an enterprise, and

tighten restrictions on lending. In view of the tight-money policy on the macroeconomic level next year, we must find a way out—by readjusting the fund structure. Recently we have notified all special banks that they must strictly carry out the policy of considering loans on a case-by-case basis and selecting and supporting the best projects. Special banks should spend their limited funds on the cutting edge by supporting the purchase of agricultural byproducts and exports; energy, transportation and the production of raw materials; and the manufacturing of popular marketable products. They must determine what a reasonable level of working capital loans is for an enterprise and apply management-by-objective to working capital. They should use interest rates to lower the percentage of loans going toward working capital. Steel inventories and other materials kept in stock must be cleared. Inefficient enterprises with a poor reputation should be given mortgaged and secured loans. Enterprises that seem profitable but are actually losing money and have more liabilities than assets should be denied loans. Otherwise, the fund structure cannot be adjusted, the potential of fund cannot be tapped, and the goal of controlling the overall volume and adjusting the structure will not be achieved.

5) Reform the foreign exchange control system. Establish a state foreign exchange reserve fund whereby the central bank can carry out unified management and comprehensive planning in order to adapt to constant changes in the international financial market and exchange rates. Improve the export exchange settlement system, broaden the use of the export three-joint-bill exchange settlement method and the cancel-after-verification export exchange settlement system. Familiarize ourselves with the amount of foreign exchange earnings generated by exports. Ensure that when goods go out, money comes in. Cut down on the loss of foreign exchange. Reform the retained foreign exchange system. Carry out a pilot project on the retained foreign exchange certificate system. In coordination with foreign trade reforms, simplify procedures in the export of light industrial products, arts and crafts, and clothing. Allocate retained foreign exchange immediately after export exchange is settled so that the exchange becomes available for use by the unit carrying out the pilot project in foreign trade reform. Enlarge the scope of foreign exchange regulation. Speed up the horizontal circulation of foreign exchange fund. Allow the localities to retain foreign exchange for regulatory purposes. Conduct an experiment in a small number of cities in the use of overseas remittances for regulation. Regulate the retained foreign exchange of units carrying out pilot projects in the export of light industrial products, arts and crafts, and clothing. Ease up on regulated prices properly so as to help these units trim their export losses. Strengthen the unified management of foreign debt and strictly prohibit units from borrowing overseas without permission. Step up the statistical supervision of the entire nation's foreign debt and improve the borrowing units' repayment responsibility

system. Intensify the statistical supervision and forecasting of the capital recoupment and profits of Sino-foreign joint ventures, contractual joint ventures, and wholly foreign-owned enterprises.

3. A Few Issues of Understanding

As financial structural reform becomes more thoroughgoing, our understanding too has entered a more advanced stage. The direction and principles of financial reform have now been set, but we must still continue to resolve problems relating to understanding in the stage of substantive and in-depth reform.

The commercialization of special banks, for instance, a point raised by Premier Zhao Ziyang in his government work report. First, it must be recognized that banks are enterprises. If there is no consensus on this issue, we cannot even begin to talk about commercialization reform. And if we recognize that special banks are enterprises, we cannot manage them with the stuff used in managing administrative agencies. To vitalize industrial enterprises, we cannot manage all the way down to the level of workshops, teams, and groups. Similarly, bank management cannot be too detailed. Otherwise, bank commercialization will not be able to make progress. It must also be seen that banks are financial enterprises whose activities affect the entire national economy. Thus they are different from agricultural, industrial, or commercial enterprises. The commercial management of banks, therefore, cannot copy others mechanically but must have its own characteristics.

Another problem has to do with the horizontal-vertical relationship. For years we followed a vertical distribution system in the allocation of credit funds. Practice proves that this did not meet the needs of the commodity economy and lateral economic associations. But replacing vertical distribution with horizontal distribution does not work either. The original meaning of finance is free, unimpeded circulation. It requires that funds flow freely in all directions. Only thus can fund circulation be accelerated and returns on fund be augmented. If we create new fragmentation, vertical or horizontal, in the course of reform, the free circulation of funds will be hampered. This will not be an achievement of reform, but will instead become an additional target of reform. In planning financial reform, therefore, we must look forward and back and focus on future reform objectives, at the same time taking the present as our starting point and furthering reform step by step.

A third problem has to do with business overlapping and competition between banks, which was also raised by Premier Zhao Ziyang in his government work report. Practice in the last few years proves that introducing the mechanisms of competition into the financial sector has been instrumental in raising the efficiency and quality of financial services. However, we do not give up bank supervision and management and allow them to attract customers irresponsibly regardless of financial goals and

policies, to ignore economic returns and make loans arbitrarily, or to set up branches and savings institutions without considering need and business accounting. Ours is a planned commodity economy. Competition must be consistent with social benefits. Destructive competition must be checked.

Yet another problem concerns the establishment of new financial institutions. To meet the needs of China's diversified economic forms and their different operating methods, it is entirely necessary for us to actively create a variety of economic organizations and develop non-bank financial institutions of a collective nature. But unlike industrial and commercial enterprises, financial enterprises must engage in financial activities under the centralized leadership and management of the central bank. To put up a local bank or departmental bank is to deviate from this principle. As for private banks, their establishment and development is even more out of the question in China. At stake here is the unified regulation of the nation's credit as well as deposit safety and responsibility to customers. All these questions relating to understanding must be resolved continuously as reform gains depth.

12581

Suggestions on Financing Commodity Housing
40060074a Beijing JINRONG SHIBAO in Chinese
9 Nov 87 p 3

[Article by Ma Mingjia [7456 7686 1367]: "We Should Support Financial Reforms Abetting the Commercialization of Housing"]

[Text] The commercialization of housing calls for corresponding reforms in the financing system. I think now is the time to institute the following financial reforms.

1. Establishment of Home Financing Institutions

The objective of urban housing reform is to turn real estate distribution into money distribution and put homes on the consumer market. To achieve this, it is necessary to have the right kind of financial institutions to raise funds, make loans, and settle accounts. Yet, in China today, there is no financial institution which specializes in serving the reform of the housing system, and the need for change is obvious. In light of China's conditions and drawing on the experience of other countries, consideration should be given to establishing the following three types of financial organizations. First, we should establish home loan departments in banks. All qualified banks, particularly industrial and commercial banks and construction banks closely related to urban housing reform, can set up home loan departments to handle loans and settle accounts for units and individuals to buy or build houses. Second, we should establish housing construction savings associations. In cities where housing reforms are being carried out on an experimental basis large and medium-sized enterprises

can set up housing construction savings associations on the principle of voluntary participation. Membership in the associations should be limited to each company's own workers and staff members. The accumulated savings deposits can be used as housing loans for members or to augment the enterprises' housing construction funds. Association members have priority in buying new homes built by their companies and may even get some company subsidies. Third, we should establish home savings banks on a trial basis. Pilot home savings banks can be set up in one or two cities where experiments are being made in reforming the housing system to gain experience. These banks can be capitalized by shares subscribed by local governments, specialized banks, insurance companies, enterprises, and establishments. They should operate under the guidance and control of the People's Bank of China, and each should have a board of directors, headed by a president who assumes full responsibility. The banks should operate on the principle of secured principal and low interest and should not make profit their goal. They should insist on "independent management, assuming full responsibility for their own profits and losses, taking their own risks, and achieving their own balances." They should concentrate on the real-estate loan business and devote themselves to serving the local urban housing reform.

2. Readjustment of the Bank Credit Structure

Urban housing reform cannot succeed without the availability of bank credit. Although China's banks today have a surplus of several hundred billion yuan in deposits over loans, little of the money is used on housing, as most of it is used by enterprises as working funds or for technological upgrading. To change this situation, readjustments must be made in the bank credit structure. We should consider reducing a certain percentage of the technological upgrading loans extended to enterprises, or setting aside a portion of new savings deposits, or both, and the funds thus made available can be used to support housing reform.

3. Opening New Fund-Raising Channels

Although readjustment of the bank credit structure can provide some funds for housing, the amount will be limited. The fundamental solution lies in diversifying means of credit to open up new fund-raising channels. At present, the following four channels seem feasible. First, we can establish housing funds. The scattered funds set aside for housing by various departments and units can be pooled together and used specifically as housing loans in an orderly way. Second, we can open home savings accounts. The specialized banks, home loan departments, and pilot home savings banks should all actively promote this type of savings deposit. The principle of "linking loans to deposits, limiting loans to depositors, attracting deposits with loans, and building up loan funds with deposits" must be followed so that the organic combination of deposits and loans can motivate more people to save for homes and alleviate the pressure

on bank credit. If necessary, we can draw on the experience of the Philippines, Brazil, Mexico, France, and other countries and make it compulsory for workers and staff members with higher wages and lighter family burdens to deposit a specific percentage of their wages in home savings accounts. Third, we can float housing bonds. Specialized banks and home savings banks in cities designated for experimental housing reforms can issue housing bonds to local units and individuals with the approval of the People's Bank of China. Bond holders urgently in need of cash can obtain bank loans using the bonds as collateral, and they can also sell their bonds through banks or directly in the securities market. Fourth, we should required advance payment for homes. Builders should be encouraged to negotiate an agreement with prospective home buyers to pay for 50-70 percent of the cost of the homes to be built in advance. Even though this practice does not increase the funds raised by the banks, it will put the available housing funds to more effective use and speed up the construction of new homes.

4. Institution of Home Mortgage Loans

Residential housing loans are different from loans extended to industrial and commercial enterprises. Housing loans not only tie up funds for longer periods, but involve more borrowers and greater risks. Therefore, unlike loans to enterprises, which are usually extended on credit, residential housing loans will have to be secured. To obtain a mortgage loan, the borrower should surrender the title deed of the home he buys to the bank as security according to provisions in the loan agreement, and will get it back upon repayment of principal and interest. If the borrower fails to repay principal and interest when due, the bank has the right to put the mortgaged house on sale and recover the principal and interest due from the proceeds. In this way, the banks can extend housing loans to residents and support the housing reform without fear of loss. At the same time, it will strengthen the borrowers' sense of credit, make them repay loans on time, and bring about a sound circulation of credit funds.

12810/12913

INDUSTRY

Northeast Special Steel Production Examined
SK050201 Shenyang DONGBEI JINGJI BAO in Chinese No 220, 16 Jan 88 p 1

[Article by Xu Buyun, deputy director of the State Council's Northeast China Economic Zone Planning Office: "It Is an Important Strategic Task To Build the Northeast China Special Base"]

[Text] Special steel is an important basic raw material for economic construction and an indispensable element of production for promoting the traditional industrial

revolution, facilitating technological progress, and developing social productive forces. Therefore, we should conduct in-depth study on ways to accelerate the development of the special steel industry and should put forward relevant principles and policies.

1. Fully Understand the Strategic Importance of Special Steel

Special steel is a kind of steel product that is superior in many respects to plain carbon steel. It can satisfy and adapt itself to various environments and has the properties of the means of production and the means of subsistence, such as elasticity, plasticity, intensity, hardness, and resistance to wear, pressure, acid, alkalis, heat, cold, and oxidation. Therefore, it is an indispensable material for developing new products, new astronautics industry, manufacturing modern weapons, and consolidating national defense; for renovating traditional industries with new technology and improving the equipment and technological levels of industry and agriculture; and for producing a large quantity of high-grade durable consumer goods to meet the people's ever rising living standard. A great amount of special steel is particularly needed in the rapid development of oil well drilling and oil production; large power stations; marine exploitation; astronautics technology; and the machinery, electronic, chemical, communications and transportation, and information industries. As has been proven in the practice of some countries and regions in the world, we cannot accelerate the development of the national economy, technological progress, and social productive forces and cannot make our country rich and strong at an early date without sufficient special steel. In the past, whether a country was economically developed or not was judged by its steel output. Now it is not enough to judge by steel output alone; we should also view special steel's proportion of total steel output. The proportion of special steel in total steel output of industrially developed countries now ranges from 14 to 20 percent and even 30 percent in some countries. In 1986 the proportion was only 9.5 percent in our country. We have to spend a great amount of foreign exchange each year to import special steel products, even so, the contradiction between supply and demand remains sharp. Because of the low level of productive forces, in the past several decades special steel was used in limited fields; and except for the special needs in the national defense industry and the frontiers of technology and industry, it was rarely used in ordinary production and in people's lives. The situation has not changed greatly. Since the 13th party congress and with the in-depth development of reform, the four modernizations drive has entered a new historical period. To usher in the world's new technological revolution, renovate traditional industries, develop new industries, and expand foreign export trade, a better quality and greater variety of special steel is needed in more fields of social production; therefore, it will be very significant in building a corresponding special steel base.

2. Foster the Idea of Large-Scale Special Steel

Because of historical reasons and limited production and technological conditions, special steel has been produced on a small scale and in small quantities for a very long time. This does not nearly suit the needs of our country's current economic development. To facilitate the development of special steel, we should unfetter the ideological shackles of small-scale special steel and guide the development of the special steel industry with the ideology of large-scale special steel.

What is meant by large-scale special steel? First, we should expand the variety of special steel. Second, special steel should be produced by more units, not only by the electric furnaces of special steel plants but also by the converters and open hearts of plain steel plants. Any units provided with necessary conditions and capable of producing up-to-standard products can shoulder special steel production tasks to satisfy social demands. Third, we should use special steel in more fields, not only in the national defense industry and the frontiers of technology and industry but also in the wide production field and in the people's lives. In particular, we should produce a great amount of ordinary stainless steel to satisfy the production of household appliances.

We should use the ideology of developing large-scale special steel to guide the development of the special steel industry. To achieve this, we should do the following: First, we should properly transform some ordinary steel plants having favorable conditions and shift their production to special steel. This will enable us to use less investment and time to rapidly increase the production capacity of special steel and meet the needs of national economic development. Second, we should raise the proportion of special steel, including low-alloy steel, in the total steel output. If the output of special steel reaches 40 percent of total steel output of the entire northeast region, we may greatly raise the overall level of iron and steel product quality. Third, raising the overall level of iron and steel product quality will enable us to reduce the comprehensive energy, materials, and labor consumption for making each ton of steel, thus greatly raising the overall economic results of iron and steel products. Fourth, the increase in the proportion of special steel will result in raising the utilization value of rolled steel and greatly improving social benefits in the course of utilizing rolled steel, such as extending its service life, reducing the per-unit material consumption, raising the utilization rate of rolled steel, and reducing all kinds of storage and transport charges of rolled steel.

3. The Strategic Objective for Developing Special Steel in the Northeast Region

The northeast region has exceptionally favorable conditions for developing special steel: First, all of the region's four special steel plants have a comparatively long history, good basic conditions, strong technical forces, and a satisfactory variety of fairly good-quality products. Their production capacity accounts for one-fourth of the country's total special steel output. In addition, this

region has a group of plants that support special steel production. These plants produced a complete variety of products, such as refractory material, carbon articles, and ferro-alloys. Second, it has two large iron and steel integrated enterprises such as the Anshan and Benxi Iron and Steel Companies, which can provide favorable conditions for the four special steel plants and can produce a large amount of special steel in line with the needs of national economic construction. Third, it has rich and good-quality raw materials for steel melting. The two iron mines under the Benxi Iron and Steel Company have a large reserve of good-quality mineral ores that is unrivaled in the world. By using this mineral powder as the raw material for making steel, we can produce low-sulphur and low-phosphorus, highly pure, and good-quality special steel products without special processing.

Since special steel is an important strategic resource and is badly needed for national construction, the northeast region should make use of its favorable conditions to mass-produce such products. The strategic objective for developing special steel in the northeast region should be to basically satisfy the needs of the northeast region and increase supply to the whole country under the state unified plan by the end of this century.

The point of departure for building a new, multilayered, and strong special steel base lies in making full use of two favorable conditions, namely, developing quality mineral ore, iron, and steel bases and actively developing special steel production. First, we should attach great importance to building a special steel base in a traditional sense. This base should take the Benxi Iron and Steel Company as the mainstay, including the Qiqihar steel plant, Dalain steel plant, Fushun steel plant, the No. 1 steel plant under the Benxi Iron and Steel Company, some local medium-sized and small steel plants, and some plants that produce auxiliary products. In line with our existing special technical skills, we should generally classify the product varieties and organize specialized production. In accordance with the production conditions of various special steel plants, we should strive to achieve a production capacity of producing 4.5-5 million tons of special steel annually by the end of this century. Second, enterprises that produce plain steel, including the Anshan Iron and Steel Company and other steel plants, should mass-produce high-efficiency, low-alloy steel in line with market demands and strive to make its output account for 20 percent of the country's total steel output by the end of this century. Third, the special steel of the northeast region should mainly include structural steel, stainless steel, bearing steel, and tool steel. We should continue to produce and guarantee the supply of various varieties of special steel products, (such as high-temperature alloys and precision alloys) for the production of high-technology products.

4. Strategic Measures for Northeast China To Develop Special Steel

To facilitate the development of special steel, we should adopt strategically effective measures in the fields of organization and coordination, managerial system, and technical and economic policies.

First, we should formulate development plans after we have fully publicized and understood the position of special steel development in the national economy. Each enterprise that produces special steel and auxiliary products for the production of special steel should work out long-term plans for its development and technical transformation for the period until the end of this century. Special steel associations should undertake the coordination work and give guidance.

Second, we should successfully promote lateral cooperation among special steel enterprises. We suggest that the Benxi Iron and Steel Company take the lead in organizing a northeast China special steel association first. Then, at an appropriate time, a multilayered and multi-formed northeast China federation composed of closely and loosely organized enterprises may be established with the Benxi Iron and Steel Company and three other special steel plants as the key. We may encourage some local small and medium-sized steel plants, supplementary raw material production plants, and the Shenyang Iron and Steel Research Institution to join the federation.

Third, the technical transformation of old enterprises is a key measure for accelerating the development of special steel, which needs little investment and yields quick results. We should work out an advanced and feasible transformation program, which should be compatible with the following principles: 1) Effective and advanced technology should be adopted in the key links which decide product variety and quality. 2) We should allow technologies at various levels to coexist instead of renewing technologies in an all-round manner or adopting advanced techniques at every link. 3) We should be active in bringing in advanced technology and equipment from abroad and meticulous in selecting the most necessary and applicable ones. We must never use foreign exchange arbitrarily. 4) We should implement the principle of orderly development according to established priorities. We should support the technical transformation of large-scale projects with the projects which need little investment, have a short construction period, and yield quick returns. 5) We should carry out technical transformation and expansion projects simultaneously, with the former as the key. 6) We should organize stronger forces to conduct meticulous study and design and should implement the principle of achieving greater, faster, better, and more economical results.

Four, we should pay close attention to deepening reform. We should now resolve the following three issues: 1) Relevant state departments should adopt preferential policies toward finance, taxation, credit and commodity prices, and foreign exchanges retention and toward the

proportion of products sold by enterprises so that enterprises can share more profits and improve their ability for renovation. 2) We should deepen the reform within enterprises, properly expand the autonomy of second-level industrial and mining enterprises (or branch plants), and improve economic results and tap potential in order to solve problems in funds supply and technology by fully arousing the enthusiasm of grassroots units and the masses, properly using the state's preferential policies toward enterprises, and relying on the forces within enterprises. 3) We should further open to the outside world and actively adopt various measures to cooperate with units that produce and use special steel and with scientific research units, schools, banks, and credit, material, and foreign trade units so that problems in the supply of funds, technology, equipment, and materials can be solved. In particular, metallurgical industrial units should cooperate well with machinery units. A product and technology development organization specializing in the production of special steel may be established to pool efforts to study the design and manufacture of metallurgical industrial and machinery equipment and the variety and quality of special steel products.

Fifth, to accelerate the development of special steel, the state should solve some problems that are directly related to the overall situation as quickly as possible. For example, a unit of equipment should be built in Benxi area to produce sponge iron through the direct reduction method in order to solve in a planned manner the problems in the supply of good-quality materials for the production of special steel. Except for special consumers, machinery enterprises using the casting pig iron provided by the Benxi Iron and Steel Company should gradually substitute it with ordinary pig iron provided by other iron and steel enterprises. In this way, the "ginseng iron" [ren sen tie 0086 0639 6993] produced by the Benxi Iron and Steel Company can be used concentratively in the smelting of special steel, and the optimum distribution of resources can be achieved.

Jilin Industrial Development

SK060631 Changchun Jilin Provincial Service in Mandarin 1030 GMT 31 Dec 87

[Summary] Statistics showed that the total output value realized by industrial enterprises at or above the town and township level across Jilin Province in the January-November period of 1988 showed an increase of 3.6 billion yuan or 16 percent over the same period of 1986.

SMALL-SCALE ENTERPRISES

Individual, Private Economy Stages Comeback With 'Individual Households'

40060077 Hong Kong LIAOWANG [OUTLOOK]

OVERSEAS EDITION in Chinese

No 49, 7 Dec 87 pp 6-8

[Article by Hu Guohua [5170 0248 5478], Liu Jinghui [0491 2417 2037], and Chen Min [7115 2404]: "The Sudden Revival of the Individual and Private Economy"]

[Text] The individual economy in China has traveled a tortuous road in the 30 odd years since the People's Republic was founded. Its history went back a long time. When the whole nation was liberated in 1949, approximately 30 million people were employed in the individual economy in towns and villages across China, including 7.24 million in urban areas, or about 20.7 percent of the total. Since the summer of 1953, however, the bulk of people engaged in the individual economy had gone cooperative one after another and those who remained in it were few and far between. During this period until the Cultural Revolution, the individual economy waxed and waned, but the overall trend was one of a deepening decline which culminated in a total ban during the Cultural Revolution.

After the 3d Plenary Session of the 11th CPC Central Committee, urban and rural individual households have sprung up like mushrooms, encouraged by policies that permit and support the development of the individual economy. Once tottering on the brink of extinction, the individual economy has been revived and is flourishing. Today individual households of all types exceed 12 million nationwide, employing more than 18 million people, a 120-fold increase over the 1979 figure of 150,000. Moreover, there are 280,000 cooperative businesses in towns and villages all over the nation, providing employment for almost 3.46 million people. Thus the number of people engaged in the private economy actually tops 20 million and counting.

Individual Economy Operates in Every Corner of Nation

Most noteworthy is the emergence of a host of individual households who have abandoned agriculture in favor of commerce even in the most historically isolated and conservative hamlets in the countryside. A typical example is Ding Zhengqin [0002 2973 3830], a young woman from Xiaohe Village in Yicheng County, Hubei Province. After graduating from senior high school, she stayed home and went into farming. Her family was quite well off, so life was comfortable. Yet she was not satisfied. Noting the profound changes in social life in the wake of structural economic reform, she too began considering changing her life. What a way to go? She saw the large amount of waste materials left abandoned in the village and decided to zero in on waste materials recovery. Thus began her new life. She consulted the waste material recovery agencies and signed a contract with them. In the spring of 1985 she set up a family waste material purchasing station and earned 4,000 yuan that very year. Her business has been booming ever since.

Individual householders like Ding Zhengqin abound in China. After the output-related system of contracted responsibility was put into effect in the rural areas, a substantial number of laborers became redundant. Driven by the surging campaign encouraging people to get rich, individuals with the slightest skills have all joined the army of individual householders. People with no handicraft too went searching for a way to become

rich. Those with a knack for doing business took up long-distance peddling or joined the ranks of small businessmen and vendors. In this respect, the peasants in Jiangsu and Zhejiang must be considered the first people to bestir and make quite an impact. In 1983, a construction team made up of peasants from this region took almost 80 percent of the construction market at the first provincial level in Gansu. On one street in Haiyuan County Town in Ningxia where small commodities are sold, all the craftsmen speak with a Zhejiang or Jiangsu accent. Most of the barber shops in the streets of Guiyang are operated by tradesmen from Jiangsu and Zhejiang. The small dumpling stalls in and around Dabeiyao in Beijing too are usually run by people with a Jiangsu and Zhejiang accent. Scattered all over the country, they are engaged in an array of money-making occupations.

Today individual households, which have blossomed throughout China's sprawling countryside, have become countless economic channels crisscrossing the whole country, spider-web like, in every direction, linking the most isolated mountain areas with the most prosperous cities. According to statistics from the State Industry and Commerce Administration, there were merely 960,000 rural individual households with a total employment of 1.2 million people in 1981. By 1985, the number of rural individual households had risen to over 8.9 million, employing almost 14 million people. In 1981, there were close to 870,000 urban individual households nationwide. By 1985, however, such households numbered almost 2.8 million, with an employment of 3.84 million. In every large city, individual households have been growing geometrically in recent years and become a force to be reckoned with in urban society.

The remote northwest and minority areas in the Qinghai-Xizang Plateau and Yunnan-Guizhou Plateau must be considered latecomers to the individual economy. Because of the lack of transportation and information, the individual economy failed to come to life here in the early days of reform and opening to the outside world. Nevertheless, when a number of individual households from the interior "migrated" to these areas, propelled by the rising tide of reform and opening to the outside world, they brought with them a vigor that also energized the local individual household. Quickly, indigenous individual households emerged, forming a mighty army with their counterparts from outside. Of the vehicles racing along the Qinghai-Xizang Highway everyday, currently 1,300 are individual households' transport vehicles. After individual craftsmen arrived in the northwest and put an end to its state of isolation, the locals too gradually began to launch a counteroffensive. In 1985, a construction team made up of over 300 people from Linxiao County in Gansu Province went to Anying in Xuzhou, Jiangsu Province, to build villages. By 1986, locals had captured 80 percent of the construction market at the first county and provincial level in Gansu, having wrested 60 percent from non-Gansu people. In the course of the counteroffensive, indigenous individual households gradually matured.

Present throughout the land, China's vast number of individual households has become a new stratum in society. In December 1986, a national association of self-employed laborers was set up, formally uniting the myriad individual households distributed across the country into a community with organized support. Branch associations were later established at provincial, municipal, and regional levels all over the nation.

Individual Households A Diversified Mix

When the private economy was first restored, there were lingering misgivings among a public still skeptical about the policy. As a result, apart from small peddlers and small businessmen resuming their old trade, newcomers to the private economy consisted mostly of people who could not find jobs in state-owned or collective units for a variety of reasons or who had been released from reform- or education-through-labor camps. In the villages, the first individual householders to emerge also included some long-time peasants, country "bumpkins" with a little business acumen who entered business in mid-life.

As economic reform gradually intensified, the composition of individual households became more complex and diversified.

After a wait-and-see period, many fairly well-educated and ideologically sound young people who had been waiting for a job finally gave up their plan to work in state-owned or collective enterprises and plunged into the private economy. A young Beijing woman surnamed Chen had worked in the countryside and in a production team after graduating from high school. Back in the city, she saw that Beijing was teeming with young people waiting for employment and realized the difficulties of landing a job soon. As the oldest child in the family, she was anxious to share her parents' burden. After the private economy was restored in Beijing, she abandoned the idea of finding an "iron rice bowl" and opened a clothing store. Today, barely 30 years old, she is already a wealthy householder with tens of thousands of yuan in cash.

Everywhere there are numerous previously unemployed well-educated young people who, like Ms. Chen, decided not to wait endlessly for an "iron rice bowl" and instead joined the ranks of the individual economy. According to statistics, of the 2.3 million idle people in society absorbed by the individual economy in recent years, 900,000 are young people waiting for jobs. Apart from solving urban unemployment, a headache for years, the significance of these young people entering the private economic arena is that it changed the group composition of individual householders and brightened up this social stratum.

Naturally, idle members of society and people released from education- or reform-through-labor camps who have joined the private economy also constitute a force

that cannot be ignored. Because they were previously under the surveillance of judicial and public security agencies, they are discriminated against in society to various degrees. Even those who managed to get work in state-run enterprises are often treated differently. Only after the individual economy was allowed did these people really find a way out. Of the 19 million individual householders, reportedly 10 percent are ex-prisoners, which suggests that the private economy has become a critically important refuge for those people.

Besides peasants, young people waiting for employment, and ex-prisoners, the ranks of the individual economy were later expanded by a group of new members. Attracted by the advantages of the private economy—flexibility and freedom, some government employees on "public payroll" also have resigned to go into individual business. Shi Shanlin [4528 1472 7792] resigned from his position as lecturer at the Heilongjiang College of Commerce in 1982 to open the Harbin Water Supply Equipment Factory. After years of painstaking effort, the plant has grown into a medium-sized private enterprise with over 400 employees and 2 million yuan in fixed assets. Highly-educated professionals like Shi Shanlin who resigned from jobs in the public sector to go into the individual economy usually have done very well. Their entry into the ranks of private business will boost the collective professional standard of individual households.

Upon demobilization, dual-purpose personnel trained by the military too have entered the mighty individual household contingent in droves in recent years. According to State Industry and Commerce Administration statistics, individual householders who are ex-servicemen are now found all over the country and number in the hundreds of thousands at least.

Following changes in the way jobs are perceived by the public in the last couple of years, a number of senior and middle-level professionals have given up the "iron rice bowl" and joined the individual economy. Among them are technical secondary school students, undergraduates, and graduate students. A small number has even held high-ranking and middle-level professional positions before. Jianye District in Nanjing conducted a survey on the educational standards of 2,219 individual household workers and found that 90 and 5 people, or 4.1 and 0.2 percent of the total, had a senior high and college education, respectively. These percentages suggest that while few individual householders are senior high school or college graduates, they are the harbinger of a trend that should be taken note of.

Individual Economy Developing Steadily

Individual industrial and commercial households can be found in every trade in China today. After developing for years, a sizable number of private enterprises has also appeared in all arenas. Some of these private enterprises are operated cooperatively or jointly. Although they are

no match as yet for state-run large and medium-sized enterprises in scale, a small number is expanding relentlessly and is entirely capable of developing into sizable large and medium-sized enterprises. By June 1986, the State Industry and Commerce Administration had granted business permits to 40,000 private enterprises, or 3 percent of the nation's individual households. Having grown out of individual households, these enterprises usually employ more than eight people, hundreds on the high side, and have over 1 million yuan in fixed assets.

Commerce must be regarded as the sector in the private economy with the largest employment. When the individual economy was first restored, most individual operators were engaged in small commodity retailing. At the time, the state-run commercial system had yet to be reformed and rigid and isolated circulation methods were still in place. Circulation channels did not flow smoothly. State-owned commercial points normally carried a very limited range of commodities and their service attitude was poor. No sooner had privately-owned stalls and shops appeared than they began attracting public attention with their flexible operating techniques, diversified merchandise, and good service attitudes. Numerous customers began patronizing individual stalls to buy all kinds of trendy clothing, shoes, socks, and articles of daily use popular among them. In the beginning, therefore, commercial individual households made a handsome profit.

Armed with capital, they began long-distance peddling, transporting southern goods to the north and eastern goods to the west. Gradually a free private commercial system more in line with market principles came into existence. According to statistics from the State Industry and Commerce Administration, nationwide there were 450,000 urban commercial individual households in 1981. By 1985, the number had swelled to 6.2 million hiring a total of 8.3 million people, a dozen-fold increase in just 5 years.

It has come to the attention of people in all social quarters that individual households have recently been branching out into arts and culture. Individual households' business direction frequently changes as social needs change. Some insightful individual householders have realized that as reform and the policy of opening to the outside world become more and more thoroughgoing, public needs in the fields of arts and culture would also multiply. To give people what they want, they accordingly switched to dealing in arts and culture. At present, more than 300,000 individual households are engaged in artistic or cultural operations across the nation, making heartening contributions to enriching the public's cultural and artistic life.

Growing Amid Competition

It may be that the very appearance of individual households itself reflects the needs of the initial stage of socialism. Besides, their business techniques comply

with the principles of economic development and the law of market value. The result is that they soon showed an enormous vitality all their own.

As far as business techniques are concerned, their characteristic is that they are more flexible and diversified than state-owned units. Apart from waiting for customers to visit them and setting up retail points, many individual households take the initiative to knock on people's doors and solicit business.

Individual households in the repair trade are particularly versatile in the way they do business. Whether they *zuo tang* [0976 1016] or set up stalls, they attend to their customers warmly, irrespective of the time of day. Jobs are tackled as soon as they are brought in by customers. While they do big jobs conscientiously, they do not spurn small ones. Sometimes they may even finish a job while the customer waits. It is exactly this kind of flexibility that helps individual households establish their reputation and win customers.

The vast majority of individual households have displayed a high degree of social adaptability. Before they start their businesses, all households research social needs and market conditions carefully and thoroughly. Thus they usually end up offering services that are closely related to the daily living of the masses but of which society has an acute shortage. This is why most turn in a profit promptly and are able to grow steadily. In Shanghai, Beijing, and other large cities, individual repair households flourished at exactly the time when there was a rush by state-owned and collective repair businesses to switch to another trade.

Access to information and the ability to adapt to market changes and adjust prices is another important reason why individual households have enjoyed a rapid rise and swift prosperity. With limited capital and no backing, individual households must take risk to a certain extent. Hence their attention to information and market forecasting. They can often predict subtle changes in the market or slight price movements and react accordingly. Consequently, they often manage their business better than similar units in the state-owned and collective sectors.

Another reason why individual households enjoy brisk sales and booming business is that their operating costs are low and their products are inexpensive but of a high quality. These features are particularly marked in the case of individual households manufacturing small commodities. There is an individual household specializing in making bras and *jieyueling* [4634 4766 7325] on Fumin Street in the southern district in Shanghai. Instead of making bras from an entire bolt of cloth, he uses the remnants of a shirt factory. He can make 30 bras from a jin of material, at a cost of 0.31 yuan apiece, compared to 0.58 yuan in the case of state-owned enterprises. As a result, his products are highly competitive on the market.

Common to individual households is their longer business hours and more attentive services compared to state-owned or collective units. Individual households in commerce or food service usually open more than 12 hours a day. Many eateries and service establishments run by individual households operate almost round the clock.

Because of their above-mentioned characteristics, plus the fact that they have greater decision-making power in hiring, spending, and stocking, which frees them from the miscellaneous restrictions state and collective units labor under, individual households have proved to be highly competitive. Improving their operational standards amid competition, they are getting stronger by the day.

12581

Township Enterprises, Consumer Goods Production Discussed

40060075 Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese
No 47, 30 Nov 87 p 33

[Article by CHING-CHI TAO-PAO special correspondent Li Shih-chun [2621 0013 0193]: "Township Enterprises and the Production of Consumer Goods"]

[Text] Following our implementation of a general policy of reform and relaxed restrictions, tens of thousands of township enterprises appeared in China. As of 1986 there were 15.15 million enterprises in China that had been established by pooling peasant resources—enterprises engaged in industry, commerce, communications and transportation, construction, and various kinds of services. These 15.15 million enterprises employed 79.37 million workers and staff members and realized a gross value of output totalling 354.1 billion yuan (here and below, this refers to renminbi). The gross value of output from township enterprises already accounts for 48 percent of the gross value of rural social output. What needs to be stressed is that these township enterprises were established with no state investment whatsoever, relying only upon credit from banks in which peasants collectively hold stock and invest funds. In the past 8 years these enterprises have paid the state over 140 billion yuan in taxes. In addition, they have turned over 30 percent of their profits to township governments as funds to develop industry, agriculture, and rural construction. During the Sixth Five-year Plan township enterprises invested about 10 billion yuan directly in agricultural aid. This is three times as much as the state's investment in agriculture. In 1986 township enterprises handed over as much as 14.7 billion yuan to township governments.

The "Big Suppliers" of Consumer Goods

Over 80 percent of China's 1 billion-plus people are rural. As agriculture has become progressively more mechanized, a large excess labor force has emerged in the countryside. The rural economy could not be developed nor could the national economy prosper unless an outlet was found for this labor force. As of the end of 1986 township enterprises across the nation had provided a place for nearly 80 million laborers. The expansion of township enterprises has promoted vigorous development in the socialist commodity economy and helped to stimulate commerce. The population has begun to concentrate in certain locations convenient for transportation, and many small cities and towns have newly emerged in the vast countryside. In 1986 there were 11,000 small cities and towns in China, a three-fold increase over 1980. The rise of township enterprises and small cities and towns has changed the overall distribution of industry. In the future the state will methodically encourage township enterprises to concentrate in small cities and towns. These new cities and towns will become rural economic, political, and cultural centers and form a bridge linking the cities to the countryside.

According to statistics in the relevant sectors, of the nearly 6.36 million township industrial enterprises, approximately 880,000 are fair-sized township or village-run collective enterprises. Of this latter group, 500,000 are light industrial plants that produce foodstuffs, beverages, clothing, leather shoes, plastic products, and other consumer goods. In 1986 these light industrial plants in townships produced 2,711,000 tons of machine-made paper and cardboard, 54,000 tons of leather shoes, 9.57 million electric fans, 1.44 billion ceramic items for everyday use, 559,000 tons of cans, 673,000 tons of distilled white alcohol, 404,000 tons of beer, and 820 million pieces of bamboo, rattan, coir, and straw goods. Figured based on value of output, plastic goods produced 6.6 billion yuan; clothing produced 5.3 billion yuan; paper and paper products produced 4.61 billion yuan; alcohol and other beverages produced 3.26 billion yuan; arts and crafts produced 2.55 billion yuan; processed wood products and bamboo, rattan, coir, and straw goods produced 2.54 billion yuan; furniture manufacturing produced 2.06 billion yuan; cans produced 1.34 billion yuan; educational and sporting goods produced 1.12 billion yuan; and fireworks produced 1.01 billion yuan. According to a plan proposed by the Ministry of Agriculture, Animal Husbandry and Fishery, by the year 2000 the gross value of output from township enterprises will rise to about 70 percent of the gross value of China's rural social output. The vigorous growth of light industry in the townships will play a distinct role in changing the market shortage of consumer goods across the country.

The Unbalanced Development of Township Enterprises Across the Nation

Certain goods produced by township enterprises have gone on the international market in volume and returned significant foreign exchange to China. In 1986 there were

over 8,000 township enterprises producing products for export, and one-third of these enterprises produced items exclusively for export. Township enterprises created 4 billion dollars worth of foreign exchange in 1985 and 4.5 billion dollars in 1986. In Jiangsu, where exports from township enterprises created a significant volume of foreign exchange, in the first half of 1987 foreign trade departments purchased a total of 1.3 billion yuan worth of export goods, or about 75 percent of the amount they purchased in all of 1986. It is projected that they will purchase over 50 percent more in 1987 than they purchased in 1986.

Because of their proximity to large and medium-sized cities, some coastal regions have convenient transportation and can advertise for all sorts of talent nearby. Consequently, there has been astonishing growth in township enterprises in these regions. In 1986 the gross value of output from township enterprises in 8 provinces and cities—Beijing, Tianjin, Shanghai, Liaoning, Shandong, Jiangsu, Zhejiang, Guangdong—accounted for 50 percent of the gross value of output for township enterprises nationwide. By contrast, the gross value of output from township enterprises in 8 northwestern and southwestern provinces—Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang, Guangxi, Guizhou, and Yunnan—accounted for only 5 percent of the gross value of output for township enterprises nationwide. This reflects the growing economic disparity between western and eastern portions and between coastal and inland regions of the country. This growth imbalance also appears in different regions of a single province. The gross value of output from township enterprises in Suzhou, Wuxi, and Changzhou—three southern Jiangsu cities near Shanghai—accounts for 50 percent of the gross value of output for the entire province. By contrast, township enterprises in Xuzhou, Huaiyin, Yancheng, and Lianyung—four cities in northern Jiangsu—account for only 11 percent. This situation has become a matter of grave concern.

Principles and Policies for Promoting the Development of Township Enterprises

Recently the Ministry of Light Industry, seeking to enhance industrial management, suggested that township enterprises producing light industrial products should recognize that they are a crucial front army of light industry, and take care to play their role in vitalizing light industry in China. At the same time, the ministry formulated the principle of "attentiveness, support, guidance, unity, and advancement, and adopted the policy of "industry guidance and macroeconomic regulation and control." The Ministry of Light Industry requires provincial and city light industries nationwide to accomplish four tasks: First, their first priority must be to support the growth of township light industries and to strive to do a good job of technical direction, personnel training, and information services. This will create the conditions for further growth in township enterprises. Second, they must guide the direction of investments

for township light industries, and lead them in readjusting product mixes. They must gradually divert certain agricultural processing industries and labor-intensive products to the countryside. They must spread industries and technologies suitable for the countryside out to township enterprises. Urban industrial enterprises can also disperse sets of spare parts for products or set up "empty shell factories" in the countryside. This will gradually establish a rational division of labor and a mutually complementary relationship between urban and rural areas, and it will change the pattern of production under which consumer products are produced solely in the cities. Third, they must work with township enterprises on a basis of equality and mutual benefit to develop various kinds of talent, funding, technology, and resource coalitions. Or they should make famous-brand products the "leading" products and absorb township enterprises to form solid enterprise blocs, and then maximize their strong points, minimize their weak points, provide mutual support, and develop together. Fourth, they must integrate their support for township enterprise development with the "spark plans" being carried out in various places. In particular, they must integrate their support for developing township enterprises in old revolutionary base areas, minority nationality regions, border regions, mountain regions, and impoverished regions with their support for impoverished industries.

Authorities in the relevant departments have recently pointed out that the state is demanding that the nation's township enterprises assimilate a labor force of 200 million and produce a gross value of output totalling 1 trillion yuan by the year 2000. If we succeed with this plan, our goal of achieving an average annual per capita income of 800 to 1,000 dollars in China will be more secure.

12510

FOREIGN TRADE, INVESTMENT

MOFERT Official on Chinese Participation in GATT Tariff Negotiations

40060062b Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 10, 27 Oct 87 pp 17-19

[Article by Wan Yi [3769 3051] of the International Relations Bureau, Ministry of Foreign Economic Relations and Trade]

[Excerpt] IV.

China's participation in the "Uruguay Round" of multilateral tariff negotiations was the first time since New China was founded. If China intertwines the new round of tariff negotiations with the restoration of China's signatory nation status, then the negotiations would be extremely complex and difficult. To deal with this situation, the question of tariff negotiations can be divided into two major categories.

The first category is to deal with the question of the leftover tariff concessions between the government of Old China and the relevant signatory countries at the time. Old China agreed to 254 tariff reductions during the first and second rounds of tariff negotiations. Compared with the most-favored nation tariff rates in effect in 1982 and the current import tariff rates now in effect in China, 34 items or 13 percent of the total currently have tariff rates lower than the tariff concession rates agreed to by China at that time, while 205 items or 81 percent have current tariff rates higher than the tariff concession rates agreed to at that time. Current tariff rates are the same as the concession tariff rates for 15 items, or 6 percent. Fundamental changes have taken place in social and economic systems in the more than 30 years since the People's Republic of China was founded and the categories of customs tariffs and tariff rates are totally different from tariffs and tariff rates in Old China after the 1940's. For this reason, there is no legal or practical way in which the tariff concessions undertaken by the Guomindang government of Old China in the GATT can be accepted. Even more complex is that when authorities in Taiwan illegally announced that it has "withdrawn" from GATT in 1950, 12 signatory nations applied Article 27 of GATT to revoke tariff concessions provided to China. However, 10 other nations did not revoke tariff concessions for China. Given a prerequisite of "restoring" China to the status of a signatory nation, then requiring that the above 12 nations return the revoked tariff concessions to China and that they be provided to all signatory nations according to the principle of most favored nations obviously would be quite difficult to achieve; in contrast, it obviously would be unacceptable to require that the Chinese government go back from current customs tariffs to pre-1949 customs tariffs and to compensate all other signatory nations for the tariff concessions dating back to those undertaken by the Guomindang government. In such a situation, a more feasible method would be to have all parties not trace back to the remnant tariff concessions. This would mean that all parties would abandon their demand for a compensation rights and the earliest negotiations regarding tariff concessions by Old China for the relevant signatory nations, and that this thereby would eliminate drawbacks and demand for compensation rights by all relevant importers from the governments of their respective nations. The adoption of a method for solution which does not trace things back would benefit both China and other GATT signatory nations.

The other category concerns China's negotiations on tariff concessions with other signatory nations on a mutually beneficial basis. The weighted average of China's current tariff rates is around 14 to 16 percent, which is higher than the average tariff of 11.3 percent for the developing nations at the present time. This gives China a definite bargaining capacity and makes it beneficial for China to carry out tariff negotiations. At the same time, based on Part 4 of Article 18 of the GATT and the "authorization clause" passed during the "Tokyo Round" in 1979, the developing nations can enjoy

differential added preferential treatment and are not required to provide equal concessions during tariff reduction negotiations with the developed nations. This is a beneficial condition for China's participation in tariff negotiations.

A great deal of preparatory work must be completed more quickly for China to participate in tariff negotiations at the present time. Therefore, when drawing up concession lists, consideration should be taken of trade statistics over the past 3 years. The first of all requires that good work be done concerning customs statistics, that tabulations be made for the export figures, amount of money, and different countries, and that they be stored in computer systems. On this foundation, we should determine which signatory nations hold first place or have a substantive common interest in which export commodities, and on the other hand, which exports from signatory nations hold first place or have a common substantive interest in China to facilitate bilateral negotiation combinations on the basis of the "rule of primary suppliers." In addition, various regional bureaus, Chinese organs in foreign countries, the Customs Cooperation Council GATT Secretariat and others should clarify the situation in tariff treatment for Chinese export commodities in each signatory nation to facilitate the attainment of mutually beneficial concessions and treatment during negotiations.

12539/12232

Indirect Regulation of Foreign Trade, Changes in Export Commodity Mix Urged

40060086 Beijing GUOJI MAOYI WENTI in Chinese No 5, 1987 pp 5-10

[Article by Zhou Xiaochuan [0719 1420 1557], member of the State Commission for Restructuring the Economy: "Changing the Export Commodity Mix Essential to Export Growth"]

[Text] 1. China Under Enormous Pressure to Adjust its Export Commodity Mix and Diversify Product Lineup

The intensification of China's policy of opening to the outside world and sustained domestic economic growth make it increasingly imperative that it exports to earn foreign exchange. The present foreign trade system does not work smoothly because of a lack of coordination. Moreover, with a shortage of foreign exchange, examination and approval procedures have been tightened level after level and foreign exchange is being distributed administratively, thus erecting new barriers in the way of the delegation of managerial powers. Instead of operating independently, enterprises have no choice but to depend on the higher authorities, in the process complicating the reform and development of the foreign trade system. To ensure export growth, we should accelerate the development of a system of indirect regulation over foreign trade and transform the export commodity mix. Three strategies are available to us as options:

1) Do our best to preserve the existing export commodity mix and export volume; 2) Establish export bases and develop "leading" products; and 3) Diversify our exports.

In the long haul, it is almost impossible to keep the existing export mix and export volume because of the law of evolution of the industrial structure. Export growth must be based on a drive to increase the sale of manufactured products. International experience proves that the development of manufactured products should stress "leading" products and a broad variety of products equally, which requires a combination of special "export base" policies and general policies that encourage exports across the board. Since the Seventh 5-Year Plan has elaborated in no uncertain terms a policy for developing export bases, I think our next step is to zero in on product diversification. This requires major solid progress in foreign trade reform.

Continuous development of the economic structure is an important hallmark of a growing national economy, while the continuous evolution of the export commodity mix is the hallmark of the development of an exporting nation selling products other than natural resources. Such evolution has been particularly marked in the case of countries with an economic growth rate exceeding the world average. This has been a law in international economic development in recent decades. It follows that expediting changes in the economic structure constitutes a key economic development and export expansion policy.

In the beginning, the fast-growth developing nation depends principally on the export of primary products. As its economy expands gradually, domestic demand for certain primary products increases apace, the supply sources of exports shrink, and returns on domestic sales overtake those on export. As a result, the export of primary products drops or disappears. In 1985, for instance, an overheated domestic economy led to excessive overall demand in China, thereby exacerbating the phenomenon of diminishing export supply sources. Furthermore, the Seventh 5-Year Plan projects an average annual growth rate between 7 and 10 percent for the country, substantially higher than the world average. Under these circumstances, it was inevitable for the supply sources of primary products destined for the overseas market to shrivel. That domestic demand would grow at the expense of export sources is unavoidable; it is only a matter of time. Yet the fact that it happened a few years sooner rather than later did widen the disparity and make the change that much more abrupt.

Judging from the decline in the percentage of primary-product exports, both proportional and absolute, we may and would logically see a drop in the export volume of certain primary products, with some ceasing to be exported altogether. For instance, a number of fruits and vegetables at the middle and upper end of the market

used to be luxuries at home. As the public's purchasing power goes up, the margin of economic returns on domestic sale may in some cases exceed that on export. Moreover, the component costs (resource costs and labor costs) of manufacturing those products are changing constantly. On the macroeconomic level, therefore, a case may be made for increasing their domestic sales while reducing their exports. The same argument applies to crude oil exports. Just what is the most appropriate level of crude oil exports? The answer can be found only through a rigorous comparison of the margin of economic returns on export with the margin of economic returns on domestic sale. The level varies from year to year. A key policy is to provide enterprises with a set of indirect control signals so that an industry can arrive at an export/domestic sale ratio consistent with what the macroeconomy requires. The set of signals are exchange rates, tariffs, export tax drawbacks, individual export support policies, and other mechanisms. With the so-called art of macroeconomic indirect control, the collective behavior of all enterprises as they practice business accounting and maximize profits should be consistent with the goal of stable, balanced national economic growth across the board. If administrative tools are overused to the degree that they prevent enterprises from functioning in accordance with the law of value, the organic relationship between export and domestic sale will be severed and the development of the export commodity mix will be hampered, thereby affecting the evolution of the industrial structure.

Meanwhile, China's strengths as an exporter should be exploited in the manufacturing industry. Manufactured products exported overseas often consist of a limited number of large-batch "leading" products and a wide variety of small-batch products. And some "leading" products frequently emerge from small-batch products. There is another intrinsic reason for the evolution of the industrial structure: changing relative labor costs in the world economy. Because of rising labor costs, developed nations in the West have been forced to hive off some labor-intensive operations. (When the technology involved matured into a manufacturing process, the production of some high-tech products was moved to Southeast Asia and Latin America.) Low-income developing nations often export such manufactured products as textiles and footwear. As their per capita income soars, boosting their labor costs compared to the rest of the world, these countries will gradually lose their advantage as an exporter of simple manufactured good while gaining an edge in machinery and electronic products at the middle and lower end of the market which have a higher added value. Thus the implementation of a policy that complies with the objective principles of the evolution of the export commodity mix and expedites such an evolution is a major issue in export development.

The evolution of China's export commodity mix has been relatively slow for these three main reasons: 1) Its domestic price and tax systems have made it more

advantageous to produce primary products than manufactured products (the greater the extent of processing, the more unfavorable it is to the manufacturer). As far as prices are concerned, therefore, the policy has been to encourage primary product exports, while discouraging the export of manufactured goods, a situation aggravated by distorted exchange rates. Despite a number of policies giving special assistance to the export of manufactured products, not enough has been done to offset the odds mentioned above. 2) The traditional over-centralized export system has robbed domestic enterprises of numerous opportunities to experiment in exporting and seek out their advantages. Excessively protectionist measures have freed some enterprises from the pressure to compete with imports. As a result, they have grown satisfied with the status quo. 3) Many export enterprises do not have direct contact with the international market and are hence unable to carry out proper business accounting as far as export is concerned. Even those who practice business accounting frequently come up with the wrong conclusion because of incorrect evaluation of exchange rates, tariffs, and subsidies. (For instance, in cases where export is preferable from a macroeconomic perspective, the enterprise may be persuaded by its own calculations to opt for domestic sale.) This shows that in foreign trade, economic levers are not working the way they should.

China exports only a small quantity of the manufactured products on the international market and earns little foreign exchange from them. As an exporter of manufactured products, its services are also poor. Another notable problem is its narrow product range. According to local market surveys in certain product categories, the variety of products offered by China is smaller than those of the "four little dragons" by more than 5 to 10 times. While China is entirely capable of making some of the things exported by the "four little dragons," China has lost and is losing the opportunity to export many product varieties because Chinese enterprises are ill positioned to stay in touch with the international market and conduct business accounting. As far as some varieties are concerned, China is not even in the "embryonic," not to mention "mature," stage. Not all "leading" products are the results of central planning; a number of large and medium-batch "leading" products have developed on their own from modest beginnings. Classic examples are the wigs of South Korea or the toys of Hong Kong of the 1960's. Both were mainstay exports. But neither was a key product launched by the foreign trade department or a particular industrial department. Instead both developed over time through the trial and error of a multitude of entrepreneurs. In missing the opportunity to germinate a variety of products, therefore, we effectively also missed the opportunity to nurture and export a number of potential "leading" products. In addition, even "leading" products have a limited life-cycle and must comply with the law of the evolution of the export commodity mix.

Certainly, a number of export manufactured products now at their peak can still expect to do well for the next

10 years and more. After assessing the situation correctly, we should establish export bases for such products. This is a completely necessary and effective policy. Particularly at a time when the domestic indirect regulatory system remains imperfect, it is easier to establish export bases, which also pay off relatively quickly. At present, both the Seventh 5-Year Plan and the policy encouraging an expansion in electrical machinery exports emphasize the building of bases and the adoption of special policies to nurture them. The next item to be put on the agenda is this: In what ways can we encourage export diversification? Moreover, we should integrate the base policy with the policy to encourage exports in general. This makes a tougher demand on foreign trade reform.

To meet this demand and ensure that export bases will turn out a diversified range of products instead of becoming the bases for "leading" products alone, we must apply the law of value further. The base policy should not degenerate into a means for isolating the interior and stepping up direct control. Instead it should revolve around the broadening of domestic-foreign ties and the conscious application of the law of value. And so should the foreign trade policies of special economic zones and coastal cities. In my opinion, the following issues should be threshed out during policy-formulation:

1) We need a policy to promote the creation of new products and the evolution of the export commodity mix, not one to make the existing product lineup and scale of production permanent. On the one hand, we need a base policy to develop exports and "leading" products. On the other hand, we need a series of policies to enable all sorts of enterprises (including enterprises on the bases) to explore the possibility of developing new products for export and carry out business accounting properly to assess export versus domestic sale. Only thus can exports be diversified to meet the requirements of an ever-changing mix. And only thus can exports flourish and grow steadily. 2) Turning to the export of multiple-processed manufactured products requiring the cooperation of a number of enterprises, even as we encourage the factory that ultimately puts together a product for export, we must also consider taking a series of steps to extend export support to enterprises down the line making parts and components and raw materials. This is the only way to ensure the high quality of the product overall. Many Chinese manufactured products generate little foreign exchange earnings. The problem lies with their components and materials: they are made by factories not receiving the appropriate encouragement. China's military industry and certain heavy industries boast well-equipped plants with a high level of technical expertise. We should encourage them to team up with export enterprises by supplying the latter with high-quality parts, components, and tools. We should also solve their working capital shortages and exempt them from import tariffs provided the working capital and imports are required for their indirect export production. 3) We have drawn up special policies for the three kinds of enterprises that are either partially or wholly foreign-owned,

for special economic zones, and for bases mainly because of an unfavorable domestic economic environment where exchange rates, tariffs, prices, domestic taxation, and credit policies, among other things, remain in a chaotic state. When a sound indirect regulatory system is in place in the nation, some special policies should be rolled back. The state should provide more reasonable encouragements to all enterprises in the export business.

In short, only when special policies are combined with general policies can they work more effectively, a point that must be examined carefully during the next reform stage. Product variety is a major issue in export and must be tackled accordingly. We hope to take a number of simple feasible measures, but the complexity of economic systems sometimes dictates elaborate and complicated economic policies.

In the final analysis, the goal of our foreign trade policy is a flexible and effective indirect control system. This is determined by the momentum of enterprises and their ability to develop exports. It is also determined by the capabilities of the state for management and its effectiveness of a manager. Although the current price system and financial climate fall short of forming a positive environment, reform cannot stand still and wait; it should go forward hand in hand. It is not only imperative and urgent, but also, to a certain extent, possible, for us to work hard to plan and implement an indirect regulatory system in foreign trade.

2. The Establishment Of An Indirect Regulatory System Is Vital To Changing The Export Commodity Mix

As economic structural reform advances nationwide, the foreign trade system too has undergone some changes. Through the proper delegation of managerial powers and the strengthening of industry-trade and technology-trade cooperation, import and export have been energized. In the course of experimenting, however, all manner of unhealthy things have occurred, notably the incompatibility of the profit-motivated export and import activities of microeconomic units with macroeconomic interests, and improper competition, damaging to macroeconomic interests, which has resulted from the inability of some microeconomic units to be totally responsible for their own profits and losses. The situation has drawn different assessments and different policy proposals. As I see it, the main problem is that indirect regulation has not caught up with the system fast enough. But the potential for improvement here is tremendous.

An important guiding idea behind economic structural reform is to mobilize the enormous potential within enterprises and workers and vastly improve economic performance by augmenting enterprises' decision-making power. Because China's current price system and price management system remain highly inequitable, however, some profit-motivated enterprise (and local) behavior has been at variance with macroeconomic interests and negative as well as positive things have

resulted from reform. Accordingly, a way must be found to apply policy tools (generally speaking, non-price economic levers) to coordinate microeconomic behavior to bring it generally in line with macroeconomic interests. The trouble is that none of the traditional economic policy tools was designed with a diverse range of products in mind and could not effectively neutralize the negative effects of price signal distortions. Therefore, the creation and application of new coordinated policy tools to further guide microeconomic behavior is a crucial prerequisite for decentralization and economic vitalization as well as an inevitable product of macroeconomic management during reform. In 1983, Premier Zhao Ziyang called for a product tax precisely because such a tax could offset price distortions. Certainly, owing to various difficulties in planning, implementation, and supervision, the substitution of tax payment for profits has not yet fully produced the desired results.

A similar problem exists in the foreign trade system. We all realize that the only basic way to tap the potential in import and export and realize the economic benefits in those areas is to continue to broaden the autonomy of foreign trade and production enterprises and link their performance to economic interests. The pressure facing China to modify its export commodity mix and the mercurial nature of the international market only add urgency to the demand for such a reform. Given the existing inequitable price system in the country, simply delegating power to enterprises and localities has resulted in an import and export commodity mix, the product of enterprise and local decision-making, that is unsound in the macroeconomic context. This problem is the same as that confronted in domestic structural reform. The starting point for the policy-maker should be this: Can suitable policy tools be identified that are capable of correcting the undesirable influences of an irrational price system on the import and export commodity mix and behavior? Such tools must be able to regulate a variety of commodities differently. Gratifyingly, the existing policy tools in import and export are targeted at a multitude of products. Tariffs, the regulator of import behavior, have historically been classified in detail by commodity. The cost standard for purchase and earning foreign exchange, the regulator of export behavior, or detailed regulations on import tax drawbacks, also can be classified in detail by commodity. Moreover, import and export licenses, which are administrative or semi-administrative in nature, are issued by commodity. Regulation using these tools is more flexible than that using domestic policy tools. Another advantage is that customs may supervise imports and exports strictly and effectively and provide a basis for the implementation of relevant policies. It may be said that if these tools are used well, we will essentially succeed in correcting the behavior of microeconomic units in import and export. The key question is whether or not we will take them seriously and make an effort to put them to good use. From the above-mentioned perspective of reconciling macroeconomic with microeconomic relations, as far as the gradual delegation of managerial decision-making

power is concerned, the foreign trade system is better placed than domestic industrial enterprises. Be that as it may, a look at the actual progress made so far suggests that the majority of enterprises (particularly production enterprises) have meager decision-making powers in import and export.

3. Policy Tools To Achieve Indirect Regulation Of Foreign Trade

In drawing up tariffs under a given set of exchange rates, we must take pains to make up for the disparity between the two sets of prices—domestic and international—so that all importers, whatever they import, can only make a marginal profit. That accomplished, we should further fine-tune tariff rates to give some commodities just the right amount of needed protection or encouragement, while subjecting others to the right degree of restriction, in accordance with macroeconomic interests. If we set tariff rates without paying due regard to the domestic price system (and its dual nature) and carry out in isolation an industrial policy that seeks to restrict or encourage imports, we will not be able to achieve the desirable level of imports. In the past, we made it possible for the importers of microcomputers, automobiles, color television sets, and certain raw materials to reap huge profits. The result was a wave of improper imports.

Detailed regulations on export tax drawbacks should reflect the export policy. To begin with, they must narrow the differences between domestic and international prices so that manufacturers of different products would be able to assess their export potential by referring to a more equitable form of cost accounting. In other words, they should largely neutralize the discriminatory effects of prices. On that basis, we should further use export tax drawbacks to give some exports the right amount of needed encouragement, while subjecting others to the right degree of restriction in accordance with macroeconomic interests and our development strategy. If we fail to consider fully the fact that primary products and manufactured products are generally underpriced and overpriced, respectively, under China's existing price system, which is an aberration, we will have difficulties rationalizing the export commodity mix and achieving the shift toward manufactured products, in the end effectively concentrating export enterprises in a few categories of microeconomically highly profitable products.

The fixing of exchange rates must be based on regulating the balance of payments and should help import and export enterprises practice serious and effective business accounting. If foreign exchange holders end up with certain imports that are particularly profitable as a result of tariff loopholes, not only will official rates become ineffective, creating a strong temptation to arbitrage, but enterprises will also be encouraged to export irrationally, perhaps even at a loss, with their losses on the export side more than offset by the huge profits from imports. This

is precisely the problem we are facing now. Consequently, tariff exemptions in all manner and forms must be put under strict control. In the short run, the tax-free status accorded most personnel going abroad also should be reviewed.

If business accounting can be conducted under effective control for import/export and non-trade foreign exchange balancing activities, that would essentially bring about a single exchange rate, provided tariffs and the export subsidy system also are straightened out in the meantime. And with a single exchange rate, such major problems as balancing the foreign exchange of the three kinds of enterprises that are either partially or wholly foreign-owned, currency problems in special economic zones, and bills of exchange, also will be largely resolved. In the experience of developing nations, even economically weak nations with little capacity for export can achieve a single exchange rate and afford the free exchange of currency in trade despite the existence of domestic price distortions. So-called foreign exchange control refers to the strict management of non-trade foreign exchange expenditures and capital outflow (including the overseas remittance of profits by foreign businessmen). It means that an exporter must settle his account with foreign exchange and that an importer must spend foreign exchange using the shipping list in order to prevent a drain on foreign exchange. Foreign exchange control, however, does not necessarily require import and export control. As long as the tariff system, the export tax drawback system, and business accounting are sound, there can still be a single exchange rate in import/export transactions and we can still afford an almost free exchange of currency.

In the area of finance, the export financial system should be substantially improved. On the one hand, working capital loans should be made available to exporters without delay. On the other hand, the nation's export industrial policy should be realized through lending activities. Moreover, through such mechanisms as guaranty and insurance, we should enhance the ability of the exporters of certain types of products to take risks, thereby reducing excessive disparities between different exporters and between export and domestic sale in terms of the risks they have to take and their financial conditions.

There should be a system of import licensing for those commodities whose import is allowed but which tend to be imported in excessive amounts (often as a result of the rigid price system at home), and a system of export licensing for those commodities whose export need encouragement, often provided in excess, as they face a restricted market. Given the nation's current export mix, which is unsound, creates sizable differences in returns, and is in acute need of an overhaul, and assuming an equitable tariff system, exchange rate and export tax drawback system, we may set aside a portion of the export licenses for issue through bidding and even allow their being traded on the market. Instead of doing any

harm, such a move may actually increase the exports of those products which earn more foreign exchange compared to similar types of goods. In short, export licensing and quota management should be brought under one roof and not fragmented among several agencies. As for issue methods and the dissemination of issue information, there is still much room for improvement.

Then there is a number of commodities not amenable to regulation by policy tools. They should remain subject to the direct control of planning on either a short or a long-term basis. That way, we will have both administrative and economic tools at our disposal, even keeping the power to examine and approve and to alter the scope of export licensing under extraordinary circumstances, and will largely be able to reconcile macroeconomic with microeconomic interests. If we do not use economic signals properly, administrative orders alone will often prove unable to make the microeconomy fall in line and even administrative managerial departments may make mistakes, which happens often.

To employ the policy tools described above, foreign trade and planning departments should have a clear idea of the overall import and export commodity mix (including that outside the plan) in macroeconomic terms, particularly staple imports and exports. The function of policy tools is to guide microeconomic interests to dovetail with macroeconomic interests. If we do not know exactly what our macroeconomic interests are, we cannot even begin to talk about guiding. (The situation would be different after prices are fully rationalized.) Thus, instead of being scaled down, foreign trade planning must actually be strengthened. But how we go about planning should depend on how the system is working. Command planning should be eschewed where it is not justified.

Because space is limited, I cannot discuss policy tool planning in greater detail. Still it is clear that a set of powerful policy tools awaits our use. Applied properly, they will promote foreign trade reform, thereby improving returns on foreign trade and boosting exports and imports. Needless to say, the application of these tools requires close coordination between and strong support from several comprehensive macroeconomic agencies.

In a word, we should not blame microeconomic behavior alone for the problems that have appeared in the trial reforms of China's foreign trade system over the past few years. Nor should we attribute them entirely to an irrational price system in the country. Instead, we should realize that serious flaws exist in foreign trade policy tools which, in principle, may be used with satisfactory results. After years of command management, we have been bogged down in burdensome day-to-day work and grown unfamiliar with the potential and methods of indirect regulation. Certainly there also are some individuals hankering after the power that accrues to practical work, exactly the kind of problem that has to be corrected in the course of reform. Furthermore, there is

the question of to whom the power to conduct foreign trade should be delegated, enterprises or localities. On this, an issue common to several reforms in the nation today, the government should give us a clear common understanding. My opinion is that the power to engage in foreign trade should be more directly delegated to foreign trade and production enterprises.

There are four major points about indirect regulation as a principle:

- 1) Before prices are rationalized, we should understand clearly the goals of import and export and the import and export commodity mix on the macroeconomic level. Foreign trade departments should bring about an import and export mix required by the macroeconomy.
- 2) We need a set of tools that can effectively reconcile macroeconomic interests with microeconomic behavior. Since the tools are related to one another, we must make sure they are applied in a coordinated way and not attend to one thing while losing sight of another.
- 3) We must study and develop a good grasp of microeconomic motives and behavior (of delegating authorities). We must try to find out the responsiveness of microeconomic behavior to policy tools and enhance such responsiveness (usually by stepping up business accounting and the responsibility system).
- 4) There should be a clear method to ascertain the numerical value of policy tools.

Judging from the main points above, we cannot just stand and wait for the indirect regulatory system to take shape. Instead we must actively go about putting it together. Whether or not the conditions are ripe depends on the feasibility of the points mentioned above, workload, and the costs of action. I believe the foreign trade system is equipped to accelerate the creation of an indirect regulatory system. The key question is how to achieve a consensus.

To ensure vigorous steady progress in foreign trade reform, we may consider taking the following measures to create an indirect foreign trade regulatory system gradually, further delegate to enterprises the power to conduct foreign trade, make foreign trade and production enterprises of all types responsible for their own profits and losses, and diversify our lineup of export manufactured products, thereby fundamentally ending our balance of payments deficit. 1) Rectify the tariff system in accordance with the principles above and strictly weed out tax exemptions and reductions granted by special permission. 2) Work out export tax drawback standards and strictly eliminate unreasonable price discrimination created by indirect domestic taxes and tariffs. We may start with manufactured products and then broaden the effort to other products in stages or in one step. 3) After steps 1) and 2) are implemented, most loopholes in the use of foreign exchange will have been

closed. We then can either adjust the official exchange rates or take the more drastic move of allocating foreign exchange on the market to bring about a single exchange rate and slowly ease foreign exchange control in trade. 4) Improve licence issue and quota management. Commodities whose export need to be restricted should still be subject to effective administrative management. On the import side, there remains a need for more administrative control and supervision. However, control over imports which go into the making of exports as intermediate inputs should be relaxed. 5) Improve export credit, guaranty, and insurance policies and ensure such improvements organizationally.

On the basis of the policy tools discussed above, most foreign trade enterprises will be able to assume responsibility for their profits and losses and pay taxes instead of turning over profits. Meanwhile, various powers necessary to the conduct and development of foreign trade should continue to be delegated to foreign trade enterprises and qualified production enterprises. The use of agents and assessors also should be made more widespread. The Ministry of Foreign Economic Relations and Trade too will gradually be able to separate government from enterprise functions.

12581

Trade With Mongolia Discussed

40060062 Beijing GUOJI MAOYI WENTI
[INTERNATIONAL TRADE JOURNAL] in Chinese
No 4, 1987 (inside back cover)

[Article by Zhai Guang [5049 0342]: "Sino-Mongolian Trade in Brief"]

[Text] The People's Republic of Mongolia is China's neighbor, and the border between China and Mongolia extends for more than 4,700 km. Railways connect Beijing and Ulan Bator. The Beijing-Ulan Bator-Moscow International Railroad cuts across Mongolia from south to north. Civilian air service also was restored between China and Mongolia during the first half of 1986. Convenient communications facilitate trade between China and Mongolia. The Chinese and Mongolian people share many identical or similar customs in daily life and they both want each other's commodities. After New China was founded, trade began between the Chinese and Mongolian governments in 1950, and has been going on for more than 30 years now. Trade between China and Mongolia opened up a new realm of trade: border trade. Sino-Mongolian border trade can promote development of economic trade in frontier regions of both nations, and it can make people's daily lives more convenient and promote friendship.

During the Sixth 5-Year Plan, China's trade with Mongolia grew by an average of about 13 percent a year. In 1985, Mongolia began using some of the fees paid by

China for cross-border shipment of imports and exports to purchase Chinese export commodities. This has expanded China's export trade with Mongolia.

In April 1986, the Chinese and Mongolian governments signed a long-term trade agreement for 1986 to 1990 which has laid the foundation for trade in years to come. The volume of trade between China and Mongolia reached 24.9 million Swiss Francs in 1986. The volume of trade during 1987 specified in the bilateral yearly trade agreement will be around 26.86 million Swiss Francs, up about 8 percent over 1986.

In recent years, the main commodities China supplies to Mongolia have been apples, citrus, plant oils, silks and satins, various types of cloth, towels and bath towels, clothing, thermos bottles, ice bottles, fountain pens, nationality musical instruments and other cultural and educational articles, paint, pigments, medical instruments, tools, farm tools, power station components and so on. The main products which China imports from Mongolia are lumber, papermaking materials, horse hides, sheep and lamb skins, marmot skins, deerhorn, deer whips, deer tails and other raw materials for Chinese medicines. The bilateral Chinese Mongolian foreign trade companies have been rather conscientious in implementing their agreements and contracts. They generally have been able to sign import/export commodity contracts according to the agreed-upon lists of products, and the situation in mutual exchange of goods also is rather good.

Chinese export commodities have been welcomed in Mongolian markets. The Mongolian people are particularly fond of Chinese products and have been accustomed to using them for many years. As soon as a Chinese product appears in the market, there often is competition to buy it. This is especially true of fruits, thermoses, feathered and velvet clothing and other commodities.

China's imports from Mongolia over the past 30-plus years consistently have involved imports of various types of animal products, timber and other raw material commodities. During the 1980's, the wool spinning, tanning, fur, machine-made carpet and other light and textile industries and food products industries have developed, and they are using a large amount of wool, cashmere, camel hair, various types of animal hides, wild animal skins, meat and other products for processing and export. Now, the relevant departments and units in China must integrate quickly with changes in Mongolia's export supply capacity and product mixes and study the list of products imported from Mongolia. This is of practical significance for further development of Sino-Mongolian trade on the basis of equality and mutual benefit.

12539/12232

ECONOMIC ZONES

Guangzhou Economic Zone Called 'Vibrant'

HK050620 Guangzhou Guangdong Provincial Service in Mandarin 1030 GMT 28 Dec 87

[Summary] Since its founding 3 years ago, the Guangzhou economic and technological development zone has become a vibrant industrial zone. By the end of this year [as heard—exact date not given], foreign businessmen from over 30 countries and regions visited the zone for holding business talks, and a total of 198 contracts were signed, with the investment totaling more than \$110 million. The economic beneficial results have ranked the zone first among China's 14 economic and technological development zones. Over the past 3 years, the capital construction tasks fulfilled by the zone amounted to an investment of 465.37 million yuan.

Heilongjiang Foreign Capital Utilization

SK060606 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 1 Jan 88 SK

[Excerpts] Heilongjiang Province achieved significant progress in foreign capital utilization in 1987. It approved letters of proposals and feasibility research reports on 129 projects concerning joint ventures, cooperative enterprises, compensation trade, international leasing, and processing with materials provided by foreign firms. These projects involved 1.25 billion yuan in investment, and it was planned that \$262 million in foreign capital would be absorbed. It signed contracts on 45 projects with foreign firms. These projects involved 840 million yuan in investment, and \$120 million in foreign capital would be absorbed, increasing by 180 and 580 percent, respectively, over 1986.

LABOR

Theoretical Basis of Wage Reform Discussed

40060082 Beijing JINGJIXUE ZHOUBAO in Chinese 1 Nov 87 p 1

[Interview with Lian Cen [4886 1478] of the Labor Science Research Institute by staff reporters Wang Yunqing [3769 56867230] and Ren Jingjing [0117 0079 2533]: "The Theoretical Basis for and Goals of Wage Reform"; date, place, and occasion not given]

[Text] We recently interviewed Comrade Lian Cen of the Labor Research Institute about the issue of wage reform.

[Question] Since the people are very concerned about this matter of wage reform, will you please tell us about its theoretical basis?

[Answer] China's socialist economy is a planned commodity economy based on public ownership. This is the basis for our overall economic reforms and also the theoretical basis for our wage reform. Since our economic system is in a period of transition from a product

economy to a socialist commodity economy, our wage system has had to be reformed accordingly. Many abuses occurred in the past because wages were too controlled and everyone ate out of "one big pot." 1) The criteria for wage raises could not be the amount of work done, but instead, were mainly age, record of formal schooling, and qualifications and record of service. Wages could neither be raised for staff members and workers who did more work, nor lowered for those who did less, and thus, worker initiative was dampened. 2) Wages were paid to staff members and workers by the state without consideration for the quality of enterprise management. Since this wage system deviated from the principle of distribution according to work and was unsuited to our socialist commodity economy, it has had to be changed.

[Question] How is wage reform proceeding at present?

[Answer] Wage reform is a thing of the last 7 or 8 years. A system of fluctuating wages appeared in China in 1980 along with the economic output-related responsibility system. There were small and medium-sized wage fluctuations within enterprises, with a very few practicing complete fluctuation. This system of fluctuating wages based on the economic output-related responsibility system was the beginning of China's wage reform. Of course, problems still existed in carrying out fluctuating wages. Staff members and workers worried mainly about individual wage fluctuations, without regard to whether enterprise payrolls fluctuated, too. The state, in the meantime, worried that enterprise payroll fluctuations might increase consumer funds too sharply, strain national finances unbearably, and cause prices to rise. In 1984, the CPC Central Committee's "Resolution on Economic Reform" required that "the income of staff members and workers be linked to their achievements," and "the wages and bonuses of an enterprise's staff members and workers be more closely linked to improvement of the enterprise's economic results." This was the origin of the so-called "wages based on results." The change from fluctuating wages to wages based on results was a breakthrough and has been an inexorable trend of wage reform. Since economic results have to be expressed and measured by various economic indicators, the wage form that is now being practiced is one in which all types of enterprise wages are linked to economic indicators. For instance, enterprise wages are linked to economic indicators such as taxes and profits paid to the state, real workload, realized profits, and sales volume.

[Question] How do you think enterprise wage reform should be further intensified? What are its goals?

[Answer] The economic basis for the various forms of linking enterprise wages to economic results is a combined product and commodity economy. From a theoretical and long-range goal perspective, the economy is in a period of transition and wage reform has yet to be further intensified.

Major economic reform measures are now being practiced, such as the contract management output-related responsibility system in many enterprises, progressive, base, and superprofit payment systems in enterprises that have made profits, and a (loss-payment system) in enterprises that have incurred losses. Only by organizing the economic relationship between the state and enterprises have these reforms been able to give decisionmaking power in operations to enterprises while ensuring the interests of the state. In order for enterprises to have decisionmaking power in operations, the interests of their staff members and workers must be linked to the quality of their management. This is what is motivating enterprises to further intensify wage reform. Under these conditions, a wage system is bound to appear in which the state levies taxes and enterprises make their own wage arrangements. This wage system will be consistent with the goal of regarding state-owned enterprises as relatively independent commodity producers. Therefore, it is a goal of wage reform.

[Question] What wage system do you think we should use in the near future?

[Answer] The wage reform goal that should be realized immediately is as yet unobtainable. The major reasons for this are as follows: 1) the market mechanism is still imperfect; 2) the transition from direct to indirect state control is still incomplete; 3) enterprise shop foremen (managers) still have a very poor sense of competition. Therefore, except for small industrial and commercial enterprises that are able to realize the goal of making their own wage arrangements, state-owned enterprises, and large and medium-sized ones in particular, are now still only able to carry out a system of linking their wages to their economic results. After enterprise wages are linked to economic indicators, the state will no longer, in principle, practice centralized regulation of enterprise wages. Enterprise wage distribution should then be linked to the achievements of and the amount of work done by its staff members and workers in all departments and positions. All enterprises that can pay piece rate wages should, as much as possible, use a piece rate wage system.

12267/12232

Wage Reform in Primary Stage of Socialism Discussed

40060091a Nanchang JIANGXI RIBAO in Chinese
16 Dec 87 p 2

[Article by Xiao Weiqun [5135 3634 5028] and Tang Zuoguo [0781 0146 0948]: "From the Perspective of Primary Stage Socialism—Summary of the Meeting in Which the Provinces Exchange Notes on Their Experiences and Discuss Theory Pertaining to Enterprise Wages and Distribution." Passages in italics as originally published]

[Text] In the primary stage of socialism, what is the major role of the wages of workers and staff members? How can the principle of efficiency and equity be applied

by enterprises to internal distribution? What forms and methods of internal distribution have proven effective for enterprises? These are questions of great interest to enterprise workers and staff members in the current economic reform. Recently, cadres of the provincial wage control department, officials of some enterprises, and theoretical workers held a meeting to discuss their experiences and theories on these questions.

From their experiences in restructuring the economy, many enterprises have realized that the only effective way to accelerate the growth of the productive forces is to tie a good part of the income of workers and staff members to performance and adopt flexible forms of internal distribution. As of now, 76.3 percent of the 1,249 industrial enterprises on the provincial budget distribute bonuses on the basis of performance and productivity; 11.1 percent take 10 percent from the basic wages of workers and staff members to augment their bonus funds, which are then distributed according to work; 8.1 percent take more than 30 percent from basic wages for the same purpose; and 4.5 percent pay workers and staff members entirely at piece rates or on a floating basis. As the trend of the past few years indicates, more and more enterprises are putting wages on a floating basis; a growing proportion of wages is being made flexible; and diverse new forms of distribution are being introduced.

Now that the reform of the internal distribution system of enterprises is under way in our province, how should we study its characteristics and explore the course it should take, keeping in mind that we are in the primary stage of socialism? From their discussions, the enterprise leaders, wage-control cadres, and theoretical workers arrived at the conclusion that in the primary stage of socialism, the reform of the internal distribution system of enterprises is characterized by the following:

The reform of the internal distribution system of enterprises is a staged process. The introduction of diverse new forms of distribution and implementation of the principle of distribution according to work are a gradual, staged process. First of all, the basic needs of workers and staff members must be satisfied. As labor productivity increases, a growing proportion of wages will be made flexible, and the differences in personal income will be gradually widened to a reasonable degree. The wage-control system will also be changed gradually from direct state control to indirect state control. Finally, the transition will be made to a market-regulated wage and distribution system, under which the enterprise "will make independent decisions on distribution after paying taxes to the state."

Distribution in enterprises takes many forms. In the primary stage of socialism, the economy consists of different types of ownership with public ownership playing the predominant role. Therefore, in the area of distribution, while distribution according to work remains predominant, other forms of distribution also

play a supplementary role. On the question of material benefits, because the nature of work, production characteristics, labor contributions, and economic results differ from one enterprise to another enterprise and from one worker to another worker, the resulting differences in material benefits must be accepted. There should be many forms and methods of distribution between the state and enterprises and between enterprises and individual workers and staff members.

There should be separate levels of wage control. In the past, wages were controlled by a highly centralized system. Any question concerning enterprise wages, no matter how minor, had to be submitted to the relevant government wage-control department for approval or decision, leaving no room for disagreement by local authorities, departments, and enterprises. From now on, the power to control wages and distribution should be delegated to the lower levels, and enterprises should have the right to make their own decisions in forming a flexible, simple, and independent wage-control system.

The reform of the internal distribution system of enterprises should be a coordinated effort. Tying an enterprise's total wages to its economic performance can work only when combined with a contracted management responsibility system. Without a responsible management, there is no guarantee for the enterprise's sustained growth. And, unless the personal interests of workers and staff members and their wages are tied directly to the enterprise's economic performance, there is no incentive for them to work hard. To insure that the reform of enterprise distribution is based on the principle of efficiency and fairness, it is necessary to adopt certain supporting measures such as setting standards on work quotas and the number of people for each job, drawing up complete sets of scientific work standards and procedures, strengthening control and supervision over measuring, testing, and record-keeping, improving the performance evaluation system, etc., so that the internal distribution system of enterprises can be reformed on the basis of scientific management.

In the light of the characteristics mentioned above, the meeting suggested that the following major steps should be taken in the near future.

First, vigorous efforts should be made to get enterprises to link their total wages to economic performance. They should fall into one of seven typical cases: Enterprises which are able to turn over to the state a steadily increasing amount of taxes and profits can link total wages to the amount of taxes and profits turned over to the state; Enterprises which are under obligation to repay their debts after paying taxes can link their total wages to the amount of taxes and profits turned over to the state; enterprises, which for a fairly long time to come will continue to produce goods urgently needed for national economic development, goods in short supply, and goods exported in large quantities, which produce a single line of goods or can indicate output in terms of a

standard product, and which have a strict quality control system and a means of production consumption control system, can link their total wages with actual sales; building construction enterprises can tie their total wages to their target output value; trades and enterprises, whose development is urgently required by the economy and whose social and economic benefits are mainly in the form of work, can tie their total wages to their actual work volume; enterprises which are engaged mainly in earning foreign exchange through exports can tie their total wages to the amount of foreign exchange earned plus the taxes and profits turned over to the state; commercial and service enterprises can tie their total wages to their sales volume (or business volume) plus the taxes and profits turned over to the state. Other proposals can also be experimented.

Second, the reform of the internal distribution system of enterprises should be intensified. Vigorous efforts should be made to encourage the introduction of piece-rate wages, wages based on work quotas, and floating wages.

12802/12913

Jobs Through Open Competition

HK250342 Beijing CHINA DAILY (BUSINESS WEEKLY Supplement) in English 25 Jan 88 p 1

[Text] An increasing number of township cadres or political workers are getting their jobs through open competition rather than the traditional method of appointment. Since the reform of the personnel system began in 1984, 200,000 cadres have been chosen through competition, accounting for 18.4 percent of the total in townships. The new method requires positions to be advertised and examinations held. Those selected work on a contract basis for set terms of two or three years.

TRANSPORTATION

Highway Management Regulations

40060113 Beijing ZHONGGUO JIAOTONG BAO [CHINESE TRANSPORTATION NEWS] in Chinese 4 Nov 87 p 2

["Highway Management Regulations of the People's Republic of China (Promulgated by the State Council on 13 October 1987)"]

[Text] Section I. General Principles.

Article 1. The present regulations have been formulated in order to strengthen highway construction and management, exploit the role of roads in the national economy, defense, and the people's lives, and meet the demands of modern socialist construction.

Article 2. The present regulations apply to national arterial highways within the People's Republic of China (hereinafter "national highways"), arterial highways of

provinces, autonomous regions, and centrally administered municipalities (hereinafter "provincial highways"), county roads, and township roads.

Provisions in the present regulations referring to access roads are applicable to same.

Article 3. The Ministry of Communications of the People's Republic of China has responsibility for the nation's roads.

Article 4. Highway management shall adhere to the principles of uniform leadership and a hierarchical system of management.

Construction, maintenance, and management of national and provincial highways shall be the responsibility of the highway departments of the provinces, autonomous regions, and centrally administered municipalities.

Construction, maintenance, and management of those national highways that are expressways spanning provinces, autonomous regions, and centrally administered municipalities shall be the responsibility of a special agency approved by the Ministry of Communications.

Construction, maintenance, and management of county roads shall be the responsibility of the county (city) highway departments.

Construction, maintenance, and management of township roads shall be the responsibility of the township (town) people's governments.

Construction, maintenance, and management of access roads shall be the responsibility of designated entities.

Article 5. Highways, rights-of-way, and highway installations are subject to the legal protection of the state; no entity or individual shall infringe thereon or destroy same.

Section II. Highway Construction.

Article 6. Highway development plans shall be based upon the requirements of the national economy, national defense, and the lives of the people, and shall be coordinated with development plans for rail, water, air, and pipeline transport, and shall complement urban construction and development plans.

Article 7. National highway development plans shall be formulated by the Ministry of Communications and reported to the State Council for examination and approval.

Provincial highway development plans shall be formulated by the highway departments of the provinces, autonomous regions, and centrally administered municipalities, reported to the people's government of the entity in question for examination and approval, and reported to the Ministry of Communications for recording.

County road development plans shall be formulated by the road department of the local city (or equivalent entity) and reported to the people's government of the province, autonomous region, or centrally administered municipality or a delegated entity for examination and approval.

Township road development plans shall be formulated by the county road department and reported to the county people's government for examination and approval.

Construction plans for access roads shall be formulated by the specific unit that will use these roads, reported to the higher responsible department for examination and approval, and reported to the local highway department for recording.

Article 8. The state encourages the use of access roads for public transport. When access roads are used primarily for public transport, they may be converted to provincial highways or county roads with the approval of the highway department of the province, autonomous region, or centrally administered municipality.

Article 9. Funds for highway construction may be raised by the following methods: investment by the state and by local governments; investment by specific units; Sino-foreign joint ventures; publicly raised funds; loans; surcharges on vehicle purchases; and some highway maintenance fees.

Highway construction may also involve public works projects, undertakings by the local people with state subsidies, and work provided as a form of relief.

Article 10. When highway departments use publicly raised funds or loans to construct expressways, Class I and Class II highways, and large-scale highway bridges, tunnels, and ferry docks, tolls may be collected from the traffic utilizing same in order to repay the funds raised or borrowed.

The mode of toll collection shall be stipulated by the Ministry of Communications in cooperation with financial departments and the National Price Bureau.

Article 11. Land used for highway construction shall be treated according to the provisions of the Land Management Law of the People's Republic of China.

Article 12. The land required for new highway construction, widening of existing highway roadbeds, and the addition of other highway installations shall be determined according to highway development plans and shall be included by the local people's government in its overall land utilization plans.

Article 13. When highway construction affects the normal use of railroads, pipelines, water conservancy works, power installations, or posts and telecommunications, the construction unit shall obtain prior consent from the pertinent departments.

Article 14. Highway departments shall be responsible for supervising and inspecting the quality of highway construction projects. Highways failing to meet the standards of the pertinent national regulations shall not be turned over for use.

Article 15. When highways are constructed, complementary installations to protect and maintain the highway and to protect the environment shall be constructed at the same time.

Upon completion of highway construction, the various traffic markings shall be installed according to regulations.

Section III. Highway Maintenance.

Article 16. Highway departments shall improve highway maintenance, ensure that highways are complete, level, and passable, and improve highway durability and resistance to damage.

A repair schedule shall be formulated for highway upkeep. While work is in progress, measures shall be taken to ensure the flow of traffic. If traffic must be stopped temporarily, advance notice shall be given thereof by the public security and traffic control organs.

Article 17. Highway maintenance shall be carried out under a system combining professional and public-works maintenance. The number of laborers and vehicles used in public-works projects shall not exceed the standards set by the state.

Article 18. Units and individuals owning vehicles shall pay highway maintenance fees to highway maintenance departments according to state regulations.

Article 19. Highway maintenance fees shall be applied solely within the parameters stipulated by the state. No unit or individual shall divert, misappropriate, misuse, intercept, or fail to repay highway maintenance fees.

Article 20. Should highway traffic be obstructed due to a major disaster, the local people's government at the county level or above shall immediately mobilize and

organize nearby garrisons, institutions, groups, schools, enterprise units, and urban and rural citizens to assist the highway department in making timely repairs.

Article 21. When earth or rock needed for highway construction or maintenance is extracted from vacant land, barren hills, rivers or shores, the approval of the county (city) people's government shall be obtained.

Removal of earth or rock from the aforementioned sites shall not affect nearby buildings, water conservancy works, power or communications installations, or the conservation of water and soil on agricultural lands.

No unit or individual shall employ pretexts to obstruct or demand payment for the extraction of earth or rock from a highway construction materials site approved by the county (city) people's government.

Article 22. Highway beautification shall be planned and implemented by the highway departments.

Highway beautification shall be carried out in compliance with highway technical standards.

Trees on either side of a highway shall not be felled arbitrarily; if they must be felled in order to be replaced, approval shall be obtained from the highway department.

Section IV. Highway Administration and Management.

Article 23. Highway departments shall be responsible for managing and protecting highways and rights-of-way; they are empowered to investigate, halt, and punish according to law all forms of seizure or destruction of highways, rights-of-way, and highway installations.

Article 24. The building of structures and the planting of crops on highways and rights-of-way are prohibited. Arbitrary use of highway ditches for irrigation or the discharge of waste water is prohibited.

Article 25. Roadside land development, felling of trees, and construction shall not endanger the safety of highways or rights-of-way.

Article 26. It is prohibited to excavate sand or rock, construct dams, dump refuse, narrow or widen river beds, or blast within 200 meters in either direction of a large highway bridge or ferry. Arbitrary excavation of earth or rock and the felling of trees within 100 meters above a highway tunnel or from its mouth are prohibited.

Article 27. Vehicles and persons using a highway ferry shall observe the ferry management regulations.

Article 28. Caterpillar vehicles and iron-wheeled vehicles shall not travel on paved highways without the approval of the highway department; vehicles and

objects exceeding bridge load limits shall not cross bridges. Under special circumstances, when such traffic is necessary, effective technical measures shall be taken to protect the bridge or highway.

Article 29. When it is necessary to excavate highways, or to excavate, occupy, or utilize rights-of-way or highway installations in order to build railroads, airports, power stations, reservoirs, or canals, or to lay pipes or carry out other construction, the construction unit shall first obtain the approval of the highway department; should such works affect the flow of traffic, the approval of the public security and traffic control organs shall also be obtained. When construction is completed, the construction unit shall restore or rebuild the highway according to the original technical standards or according to the standards in the plans agreed upon.

Article 30. Construction of bridges, aqueducts, and overhead lines passing over a highway shall take into account long-term highway development and conform to the highway's technical standards; in addition, prior approval shall be obtained from the highway department and the public security and traffic control agencies.

Article 31. For the construction of permanent roadside installations, the distance between the edge of these structures and the highway ditch shall be: not less than 20 meters for a national highway; not less than 15 meters for a provincial highway; not less than 10 meters for a county road; and not less than 5 meters for a township road.

Article 32. Approval shall be obtained from the highway department and the public security and traffic control organs for any level crossing of a highway.

The design and construction of intersections shall conform to the technical standards stipulated by the state.

Article 33. With the approval of the people's government of the province, autonomous region, or centrally administered municipality, the highway department may install toll-collection stations and toll-payment checkpoints at highway intersections, bridges, and tunnels.

Section V. Legal Responsibility.

Article 34. In the case of units or individuals violating the present regulations, highway departments may, depending on the circumstances, require that the original property be returned, the original appearance be restored, compensation be paid for any losses, and illicit gains be confiscated, and may levy fines.

Article 35. In the case of highway maintenance fees or tolls not being paid according to state regulations, or of the provisions of the present regulations regarding the

use of highway maintenance fees being violated, the highway departments may, depending on the circumstances, require that they be made up or returned, and may levy fines.

Article 36. Should the concerned party refuse to submit to the sanctions imposed by the highway department, he may appeal to a higher highway department; should the concerned party reject the sanctions imposed by the higher highway department, he may bring suit before the people's court within 15 days of receiving the decision; if he fails to file suit within that time, the highway department may seek enforcement from the people's court.

Article 37. Highway management personnel violating the present regulations shall be subject to administrative or economic sanctions by the highway department.

Article 38. Violations of the present regulations subject to the Security Administration Punishment Act shall be dealt with by the public security organs; in cases of a criminal nature, responsibility in the matter shall be determined according to law by judicial organs.

Section VI. Supplemental Principles.

Article 39. The meanings of the following terms used in the present regulations are:

"Highway" refers to public roads accepted and recognized by a highway department suitable for motor-vehicle traffic between cities, between urban and rural areas, and between townships. A highway includes the roadbed, surface, bridges, culverts, and tunnels.

"Right-of-way" refers to roadside ditches (or intercepting dikes) and the land at least one meter beyond the roadside ditches (or intercepting dikes). The specific extent of the right-of-way is determined by the people's government at the county level or above.

"Highway installations" refers to a highway's drainage equipment, protective structures, intersections, boundary markers, survey stakes, safety installations, communications installations, monitoring and control installations, protective installations, service facilities, ferry docks, grass, flowers, trees, and shrubs, special buildings, etc.

Article 40. Interpretation of the present regulations shall be the responsibility of the Ministry of Communications; the Ministry may formulate implementing provisions according to the present regulations.

Article 41. The present regulations shall take effect on 1 January 1988.

Shanghai Subway To Begin Construction
40060141 Shanghai WEN HUI BAO in Chinese
14 Jan 88 p 1

[Text] The engineering plans for Shanghai's Number 1 subway line (from Xinlonghua to Xinke) will soon be completely developed. The contract for the design of all 14.41 kilometers of railway, the construction of earthworks for the 12 stations along the line, and 20 electromechanical projects was signed a few days ago. The contract for the US DeLeuw Cather engineering consultant firm to assume the position of engineering consultant was signed yesterday. Presently, related organizations are paying close attention to carrying out each step in the project and are working hard to begin construction of the subway this year.

The engineering design for the Number 1 line will be undertaken by the Shanghai Tunnel Engineering Design Institute, the Beijing Urban Construction Design Institute, the Railway Ministry's Number Two Design Institute, Shanghai's Railway Bureau Prospecting Design Institute, Tongji University Design Institute and other organizations. Meanwhile, the Shanghai Subway Company has entrusted the Shanghai Investment and Trust Company and Joint Trade Company with signing the contract to get the US DeLeuw Cather firm to act as technical engineering consultant. This U.S. firm has taken on technical consulting and design work for subway projects in many U.S. cities and in Singapore, and is currently doing the technical consulting on the subway project in Taipei, Taiwan Province.

The Shanghai Number 1 subway line will use eight wide-body cars made of aluminum alloys. Each train can hold 2,400 people at full capacity and, according to design standards, at peak times these trains can handle a passenger flow of 60,000 persons per hour.

Traffic Accident Figures for December 1987
40060145 ZHONGGUO JIAOTONG BAO in Chinese
16 Jan 88 p 2

[Summary] There were more than 27,745 traffic accidents in China in December 1987, resulting in 5,252 deaths and leaving 2,843 people injured, with a direct economic loss of more than 28.43 million yuan. Of these more than 8,414 occurred in cities, causing 1,093 deaths and injuring 4,625 persons, with a direct economic loss of more than 21.69 million yuan. December had the highest rate of traffic accidents in China for all of 1987.

On 30 December, a 48-passenger vehicle illegally carrying 86 people flipped over in Yibin, Sichuan Province, leaving 49 people dead and 36 injured in the worst traffic accident in the country since the founding of the PRC.

PRC MEDIA ON FOREIGN ECONOMIES

RENMIN RIBAO: USSR Sets Up Joint Ventures
HK150628 Beijing RENMIN RIBAO in Chinese
1 Feb 88 p 7

[Article by Zhou Xiangguang (0719 6272 0342): "Establish Joint Ventures To Promote Economic Development—Soviet Union Steps Forward in Reforming Its System of Economic Relations"]

[Text] The Soviet Union announced its plan to establish joint ventures with foreign investors at home in January 1987, and now 1 year has passed. In the past year, more than 250 companies in the FRG, the United States, Japan, France, Italy, and other countries have applied to invest in the Soviet Union. Protocols have been signed for dozens of projects, and more than 20 joint venture have been set up.

The foreign economic management system in the Soviet Union, which had been formed gradually since the 1930's, was seriously divorced from the production and technology sectors of the national economy. Commodity producers could not come into direct contact with overseas markets. Under such conditions, the manufacturers could not take an active part in the international division of work, and was isolated from the outside world. Through setting up joint ventures with foreign investors, the Soviet Union will not only produce goods that must be imported by paying foreign exchange, but will also enter the international markets by making use of the foreign partners' overseas marketing networks so as to develop more outwardly oriented industries.

The Soviet Union also hoped to change its export structure when it decided to set up joint ventures. For a long time in the past, the Soviet Union mainly exported raw materials and other resources. Crude oil accounted for more than half the total export volume of the Soviet Union. In recent years, because oil prices plummeted, the Soviet Union's foreign exchange income decreased sharply. If some joint ventures are set up, the Soviet Union will then be able to improve the competitiveness of its products with the help of advanced foreign technology, and the proportion of manufactured and processed products will increase in the country's exports.

The establishment of joint ventures with foreign investors is an important aspect of the structural reform in the foreign economic activities of the Soviet Union. In early 1987, the Soviet Union adopted two major reform measures in this field. First, it allowed 21 government departments and 75 large companies to directly do import and export business. This changed the long-standing situation in which the enterprises in these departments were completely divorced from foreign trade, and promoted the export of various products. According to reports by some Soviet newspapers, due to this measure the export of cars in the first 6 months of

last year increased by 7 percent over that in the same period of the previous year. A farm machine plant in Riga set up its own trade company to export its products and increased the foreign exchange earnings by 300 percent. Second, it decided to set up joint ventures inside the country. For this, the Soviet Union adopted two decisions, namely, the "decision on setting up joint ventures between the USSR and members of the Council for Mutual Economic Assistance [CEMA], international consortiums and organizations and on the methods of their activities" and the "decision on setting up joint ventures between Soviet organizations and companies in capitalist or developing countries and on the system of their activities."

At present, more than 400 Soviet enterprises have set up direct production relations with the CEMA members. They are now preparing for the establishment of 29 joint ventures, with seven of them located inside the Soviet Union. Such enterprises can independently formulate their own production plans, do not need to undertake mandatory tasks assigned by the government, and enjoy 2 year's tax holiday. Some Soviet scholars held that such enterprises are jointly owned by the CEMA members under the socialist ownership system. Because the CEMA countries have different economic legislation, they still have to study and work out some international regulations above their countries' own economic laws so as to guarantee the normal operation of the joint ventures.

According to the Soviet regulations, the Soviet partner in a joint venture with Western countries should hold not less than 51 percent of the capital, and the other side cannot hold more than 49 percent of the capital. The chairman and general manager of the joint venture must be Soviets. All foreign exchange expenditure must be covered by its foreign exchange income from the export of its products to international markets. The joint venture is exempted from taxes in the first 2 years, and the tax rate from the third year is 30 percent. If funds are remitted abroad, another 20 percent of taxes will be imposed on such remittances. The transport and insurance affairs must be arranged by the Soviet side. Western countries showed great interest in setting up joint ventures in the Soviet Union after Moscow announced the decision, and more than 200 applications were filed. However, the number of joint ventures really established was rather small, because the two sides cherished different purposes. The Soviet side just tried to build some export-oriented industries and push its products into the international markets so as to hold a share in the international division of work; but the Western side tried to bring more of their products into the domestic markets of the Soviet Union through the joint ventures. So, the established joint ventures are still oriented to the domestic markets and mainly engaged in the production of raw materials and elementary processed goods.

The economic structural reform in the Soviet Union remains in the initial stage, administrative interference in the economic activities still exists to a large extent.

The Western investors have misgivings about the possibility of the normal operation of the joint ventures. They are worried that the Soviet officials at the intermediate or lower levels have not yet changed their old "thinking style" and lack experience in cooperating with Westerners. In addition, Western management personnel have too limited power in the joint ventures, and they cannot exercise effective supervision over the work efficiency and product quality of the enterprises. The laws governing the joint ventures still lack detailed stipulations on many concrete things. The Western world still maintains various restrictions on the export of technology to the Soviet Union. Due to all such unfavorable factors, the work of setting up joint ventures is now advancing very slowly, and it is hard to expect any major progress in the near future. Anyway, the Soviet Union has taken the first significant step in the regard, and this is beyond question.

Now people are closely watching the effect of the ongoing economic and political structural reforms in the Soviet Union.

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AGRICULTURE

Rural Socio-Economic Survey

40060126 Beijing *NONGMIN RIBAO* in Chinese 9, 11, 13, 14, 16 Jan 88]

[9 Jan 88 p 22]

["Rise in Commercialization of the Rural Economy—Aggregate Report (1) on Rural Regular Observation Point Survey For 1986"]

[Text] CPC Central Committee Secretariat, Rural Policy Research Center; State Council Rural Development Research Center; and Rural Socio-Economic Survey Office

Editor's Note: Following the 1984 National Rural Socio-Economic Representative Survey, in accordance with plans from the Rural Policy Research Center of the CPC Central Committee Secretariat, and of the Rural Development Research Center of the State Council, in early 1987 CPC Committee rural work units in all provinces, regions (Xizang excepted), and municipalities began a systematic follow-up survey in 293 villages that had been designated regular rural observation points (168 of them being villages that had been surveyed in 1984). In addition, 27,568 farming households and 910 pastoral households in the aforementioned villages were randomly surveyed. Since it was a representative survey, though the data gathered were insufficient to infer a nationwide level of rural development, the understanding of the general picture and the pattern that the data revealed hold important reference value for a thorough

understanding and study of the present status and the trend of rural economic development in China, and for improving rural work, particularly for providing tailored guidance.

This report summarizes the situation at regular observation points in 280 villages. Comparison with the 1984 survey shows data from 168 resurveyed villages.

Summary of Contents: All sectors have developed the production of commodities, and the increase in earnings has been substantial. The labor productivity rate and the commodity rate have risen, and earnings from commodities have increased. The volume of cash receipts and expenditures has increased. The space in which the peasants engage in economic activities has expanded, and the speed with which agricultural labor has shifted to non-agricultural industries has increased. The power of modern agriculture to permeate traditional agriculture has increased. Nevertheless, differences among regions in development of the rural economy have become increasingly marked, and a substantial percentage of rural households are still engaged in production for self-sufficiency or semi-self sufficiency.

Regular observation has shown that as the second step in rural reform has progressed, the position of the peasants as commodity producers has improved; the scope of market regulation has expanded; and the direction of flow of the elements of production has tended to become rational. This has promoted a rise in all rural industries and in the degree to which commodities are produced, resulting in the rural economy beginning to move along the track of a planned commodity economy.

1.1. Commodity production has developed in all industries, and income growth has been fairly substantial. Earnings from all industries in each of the villages surveyed amounted to 1,647,000 yuan in 1986, a 66.9 percent increase over 1984. This included a 17.3 percent increase in the farming industry, a 13.9 percent increase in forestry, a 20.2 percent increase in animal husbandry, a 105.1 percent increase in the fishing industry, a 133.3 percent increase in industry, an 83.9 percent increase in the transportation industry, a 112.5 percent increase in business and in the beverage industry and service trades, and a 78.9 percent increase in other industries. The construction industry alone showed a decrease by 5.1 percent. Divided in terms of the three major industries, nearly 80 percent of the new increase in gross earnings in the villages surveyed derived from growth in the secondary and tertiary industries. The development of secondary and tertiary industries has strengthened the trend of overall development of the rural economy.

1.2. Both the labor productivity rate and the commodity rate have risen, and earnings from commodities have increased. Statistics from the surveyed villages show that in 1986 each unit of labor produced an average 2,751 yuan of gross income, up 63.6 percent from 1984.

Statistics from sample households show 1986 cash earnings per household of 1,036 yuan from the sale of farm, forestry, animal husbandry, and fishing industry products, a 34.6 percent increase from 1984. Income from sales of various kinds of farm products accounted for 50.1 percent of gross income from the sale of farm, forestry, animal husbandry, and fishing industry products, up 5.3 percentage points from 1984. In terms of amounts of goods, per household production of grain was 2,479 kilograms, and the commodity rate for grain was 33.7 percent. Per household production of meat (pork, mutton and goat) was 97 kilograms, and the commodity rate was 73 percent. Production of aquatic products averaged 8.1 kilograms per household, and the commodity rate was 90 percent. Output of all these products was higher in varying degrees than in 1984.

1.3. The volume of cash revenues and expenditures increased. Accompanying development of a rural commodity economy was a steady strengthening of the position of currency in rural economic activity. In the households sample, cash revenue averaged 552 yuan (not including savings and loan income), and cash expenditures averaged 519 yuan (not including savings and loan expenditures). Simultaneous with the rise in commercialized production was a commensurate advance in the commercialization of rural expenditures for daily life. In the sample households, 63.2 percent of household earnings was in the form of cash; 68.8 percent of expenditures for production were in the form of cash; and 69.3 percent of expenditures for daily life were paid for in cash. The increasingly close link between currency and the peasants' production operations and daily consumption activities marks the emancipation of an increasingly large number of peasant households from the closed off society in which they have traditionally lived.

1.4. The space that peasants use to engage in economic activities has expanded, and the speed with which the agricultural workforce shifts to non-agricultural industries has quickened. With the readjustment of the structure of rural industry as well as the gradual opening up of the labor market, increasingly large numbers of the rural surplus workforce have begun to move out of the farming industry into forestry, animal husbandry and the fishing industry, and from primary industries to secondary and tertiary industries. As a result, the make up of production elements has become increasingly optimized between one area and another and between one industry and another. The rural survey statistics show 12.3 percent of the total workforce as leaving the land each year, 17 percent of those who have left the land finding jobs in cities above the county seat level, and 38 percent of them finding jobs in small market towns. Comparison of 1986 with 1984 shows that the workforce engaged in primary industries declined 3.4 percent to 70.1 percent of the total workforce. The percentage of the workforce engaged in secondary industries rose 2.2 percent to 18.6 percent of the workforce; and the percentage of the workforce engaged in tertiary industries rose 1.2 percent

to 11.3 percent of the workforce. Within primary industries, the percentage of the workforce engaged in farming declined 8.1 percent to 81 percent of the workforce in primary industries. The percentage of the workforce engaged in forestry, animal husbandry, and the fishing industry rose 8.2 percent to 19 percent of the workforce engaged in primary industries. A gradual decline is taking place in the size of the total rural workforce employed in primary industries, and a gradual increase is taking place in its employment in secondary and tertiary industries. A look at the already evident trend of development shows that as time goes by, more of the workforce will move into non-agricultural pursuits.

1.5. Modern agriculture has permeated traditional agriculture with great force. During the past 2 years, modern methods have steadily been introduced into agricultural production, and traditional agricultural production methods are gradually giving way to modern agricultural production methods. Though this change is very slow, it has added a new vitality to development of a rural commodity economy. In 1986, machine plowing of the land averaged 898 mu in the villages surveyed. This was 36.8 percent of the total plowed land area for a 3.5 percent rise over the 1984 figure. Each village surveyed used an average of 67.5 tons of chemical fertilizer (the amount converted to show chemical content), up 107 percent from 1984. Their annual use of agricultural pesticides stood at 1.25 tons, down 30 percent from 1984, each village surveyed using chemical herbicides on 288 mu. They used 191,000 kilowatt hours of electricity, up 36 percent from 1984 including a 14.3 percent increase in electricity use in daily life, and a 45.8 percent increase in the use of electricity in production. In addition, various applied techniques, including the replacement of conventional crop varieties with hybrids, the use of plastic mulch, and the growing of seedlings in hot-houses to replace conventional growing methods have played an important part in production.

1.6. Regular observation has shown very great imbalances in development of the rural economy. Looked at in terms of gross earnings from all industries, the increase has been far faster in eastern parts of the country than in central and western parts of the country. On average, gross earnings in the villages surveyed in 1986 averaged 3,571,400 yuan in the east, 1,166,100 in the central part of the country, and 983,300 yuan in the west. In comparison with 1984, this was an increase of 81, 40.8 and 52.4 percent respectively. Comparison of the eastern with the central region for the two years 1984 and 1986 showed a change from 1.38 times again as much to 2.06 times again as much. Comparison of the eastern with the western region showed a change from the former two times again as much to 2.63 times again as much. Gross income from all industries in villages in 1986 versus 1984 showed 38.7 percent of villages as having had an increase of 50 percent or more (19.4 percent of them showing a doubling or more of income), 15.5 percent as having had an increase of between 30 and 50 percent, 19.3 percent as having had an increase of between 10 and

30 percent, and 7.7 percent as having had an increase of less than 10 percent. In an additional 18.7 percent of villages, gross income from all industries was less than in 1984, the momentum of development having slowed noticeably.

1.7. Imbalances in development of the rural commodity economy also showed up in the degree of commodity production by the rural economy where, despite a new high, a substantial number of peasant households were still engaged in production for self-sufficiency or semi-self sufficiency, and the commodity rate was extremely low or even no agricultural products were offered for sale, no breaking away from the pattern of the natural and semi-natural economy having occurred. Among the sample households that put their labor into grain production, 32.8 percent had no grain for sale. Among the sample households that put their labor into animal husbandry, 56.5 percent had no meat for sale. Except for the peasant households engaged predominantly in non-agricultural work, these peasant households had yet to take the first step toward commodity production of agricultural products. In general, the commodity rate for peasant households correlated directly to per capita income. Among households with per capita earnings of less than 200 yuan, the commodity rate was 32.9 percent; among households with per capita earnings of 1,000 yuan or more, the commodity rate was 64.2 percent.

1.8. The development of rural commodity production during the past 2 years has hastened the disintegration of the natural economy, and accelerated progress in the transformation of rural villages from production for self-sufficiency and semi-self sufficiency to large scale commodity production. However, in evaluating this progress, one must realize the tremendous differences in the level of economic development between one region and another and between one peasant household and another. In an overall sense, the development of China's rural commodity economy remains in an initial stage. Consequently, everything for economic development, and everything to raise rural productivity remains the basic starting point for future rural work.

[11 Jan 88 p 2]

["Development In the Same Direction and Widening of the Spread in Peasant Income—Aggregate Report (2) on Rural Regular Observation Point Survey for 1986"]

[Text] CPC Central Committee Secretariat, Rural Policy Research Center; State Council Rural Development Research Center; and Rural Socio-Economic Survey Office

Summary of Contents: Per capita net earnings in sample households increased 31.2 percent in 2 years. One general feature was an increase in the number of high income households and a decrease in the number of low income households. If the rise in income attributable to

price factors is subtracted, however, some sample households show a decline in net income. In a situation of general rise in income, the income spread widened slightly. Various reasons accounted for this. Only through correct handling of the relationship between becoming rich earlier and later and prosperity for all is it possible to acknowledge the spread while keeping it within reasonable bounds at the same time. Coordination between development of a commodity economy and a cooperative economy is helpful in a microeconomic sense in preventing excessive gaps in the income spread.

2.1. Peasant income provides an overall indicator of the extent to which the rural commodity economy has developed and of the peasants' standard of living. In 1986, net per capita income in sample households was 491.12 yuan, up 31.2 percent from 1984. This income derived from the following sources: income from village and team run collectives accounted for 18.9 percent, a rise of 1.8 percent; income from economic partnerships amounted to 3.5 percent, up 1.1 percent; income from work done by individual households accounted for 63.6 percent, a decline of 2.5 percent; income from labor services provided outside the village of residence contributed 7.3 percent, up 0.6 percent; and income from sources other than loans produced 6.7 percent, down 0.9 percent. Over a period of 2 years, per capita net income in sample households increased 14.6 percent. This represented a slowing of income growth from the previous 6 years. The increase in per capita net income in sample households from 1978 through 1984 had been 18.9 percent.

One general feature of the growth in peasant income was an increase in the number of households having high income. In 1986 the number of households with net per capita earnings of less than 200 yuan fell from the 23.3 percent of 1984 to 15.1 percent; the number of households having a net per capita income of between 200 and 500 yuan declined from 49.8 percent to 46.1 percent; the number of households with a net per capita income of 500 to 1,000 yuan rose from 21.1 percent to 29.3 percent; and the number of households with a net per capita income of more than 1,000 yuan rose from 5.8 percent to 9.5 percent.

2.2. The rise in peasant income contained price factors that cannot be ignored. The readjustment and removal of restrictions on prices for principal agricultural products over a 1 year period that accompanied reform of the centralized procurement and assigned procurement systems was one of the main reasons for the increase in peasant income. Calculations based on agricultural produce price indices provided by the State Statistical Bureau show 52.7 percent of the increase in income in 1986 versus 1984 as attributable to a rise in prices paid for agricultural products to households selling farm, forestry, animal husbandry, or fishing industry products. This amounted to as much as 163 yuan per household. Data from several provincial surveys showed net per capita earnings in 735 continuously observed households

in Jilin Province to have increased 31.26 yuan or 6.31 percent during the 2 year period; however, if the 42 yuan increase in income resulting from the change from centralized procurement to fixed contract procurement of grain and edible oil is subtracted, per capita net income in 1986 was 22 percent less than in 1984. In 1,554 continuously observed peasant households in Heilongjiang Province, per capita net income rose 12.4 percent in the 2 years, but after subtracting the increase attributable to price factors, per capita net income fell 5.2 percent.

2.3. In 61.2 percent of the sample households, per capita income was lower than the 491.12 yuan average. On a provincial basis, net per capita earnings in sample households were lower than this average in 17 provinces and autonomous regions. In terms of the three major economic zones of the country, only in the eastern zone was the net per capita income in sample households higher than the average figure at 24.3 percent above it. In the central and western zones of the country, average per capita income in sample households was 11.3 and 29.3 percent lower than the average figure. Therefore, one cannot look only at the average figure for peasant per capita income. One has to make a concrete analysis, using the average figure to note the imbalance that exists between one region and another and one household and another as an aid in providing tailored guidance.

2.4. In a situation of general rise in income, the spread in income widened slightly. If all households sample is taken to be 100, the total being divided into five parts in terms of the size of per capita net earnings, 20 percent of the sample households would be low income households with per capita net earnings of 152.28 yuan (up 13.3 percent from 1984), and 20 percent of the sample households would be high income households with a per capita net income of 1192.21 yuan (up 15.3 percent from 1984). The spread between the two would have increased from the 1:7.68 of 1984 to 1:7.81 in 1986. Despite the slight increase, one would have to say that this is within normal limits.

2.5. Many reasons account for the increased spread of peasant income. The survey showed the following factors as having had a major effect on peasant income, and they cannot be changed within a short period of time.

Differences in natural, social, and economic conditions: Peasants living in different areas had different incomes. Among sample households, net per capita income for those living in plains areas was 593.14 yuan; for those living in hill regions, net per capita income was 518.65 yuan; and for those living in the mountains, net per capita income was 350.72 yuan. Net per capita income for peasants living in suburban areas was 766.10 yuan; for those living in non-suburban areas, net per capita income was 481.20 yuan. In a commodity economy, differences in the socio-economic climate have an extremely marked effect on peasant income. Plains areas and suburban areas contrast with mountain areas or

non-suburban areas in terms of fine natural conditions, fairly abundant resources, readily available transportation, information flow, and less influence from the tradition of a natural economy. As a result of differences in socio-economic conditions, there is a difference in the income obtained from the same inputs of labor by those who engage in agriculture that is characterized by natural reproduction.

Differences in Individual Quality. Among households in which per capita income was less than 200 yuan (hereinafter termed low income households), and among households in which per capita income was higher than 1,000 yuan (hereinafter termed high income households) were workers possessing special skills. In the former, they accounted for 6.1 percent; in the latter, they accounted for 18 percent. In the former, 39 percent of the workers were illiterate or semi-illiterate; in the latter, the percentage was 13.9 percent. Clearly, high income households were better educated or more highly skilled than low income households. Their superior education and skills enabled them to make the transition more easily from a natural economy to a commodity economy, to adjust more rapidly to the market, to seize opportunities to get ahead, to organize the elements of production, to set out swiftly on the road to riches, and to take the lead in becoming rich.

Differences in Number of People Supported. Among high income households, each member of the workforce supported an average of 1.59 people; in low income households, the number was 2.15, or 0.56 more people. When there are a large number consumers and few producers in a household, per capita income is low.

Differences in Occupations and Industries: The labor force working in single family occupations accounted for 95.2 percent of the low income households, while the workforce in 45.5 percent of high income households worked in non-agricultural occupations outside the home. A look at the structure of single family occupations shows 88.7 percent of low income households working in primary industries, 62.6 percent of them in farming. Among high income households, 50.7 percent of the workforce worked in primary industries, only 35.5 percent of them in farming. Differences in the employment structure are readily apparent. In low income households, most of the workforce is engaged in primary industries and in occupations limited to the home; in high income households, by contrast, a greater percentage of the workforce works in secondary and tertiary industries and in occupations outside the home. There are also marked differences in the degrees of employment. Low income households work an average of 193 days each year. On the basis of a 360 day work year, this is to say that they have a labor surplus 36 percent of the year. By contrast, high income households work 281 days each year, meaning that they have a labor surplus only 6.4 percent of the year. Their employment rate is far higher than for low income households. Because of

differences in the employment structure and the employment rate, there is a substantial gap between high and low income households in the labor productivity rate and the commodity rate. In high income households, net per capita income per workday is 8.64 yuan; in low income households, it is only 1.41 yuan. In high income households, the commodity rate for goods produced by the farming, forestry, animal husbandry, and fishing industries is 64.2 percent; in low income households, it is only 32.9 percent.

Differences in Assets: Differences in peasant income levels also stem from marked differences in ownership of productive fixed assets. Contrast, for example, households having a per capita net income of 200 yuan and households having a per capita net income of 1,000 yuan. In 1985, the original value of productive fixed assets owned by the latter was 3.5 times again as great as for the former. New purchases of productive fixed assets during that same year were also 5.8 times again as large for the latter than the former. This situation shows that peasant households that became rich first generally have a greater ability to expand the scale of their operations, while low income peasant households with a weaker foundation to start with find it difficult to keep up the pace of development, and over a period of time, the gap in peasant incomes will also tend to widen further.

2.6. Regular observation has shown that when natural economic conditions are equal, as a commodity economy develops, the gap between peasant incomes is bound to widen as well. Not only is this unavoidable, but it also plays a positive role in real economic life. Only when there are differences can comparisons be made, and only comparisons can bring about development. The model role of some people and some areas that have become rich first has shown good results in sparking other areas and other people to adopt a policy of gradually becoming rich. Thanks to the stimulus of some people who have become rich first, numerous peasant households have expanded their horizons, broadened their avenues, lifted themselves out of poverty, and ascended the stairs to better incomes. Of the households that had a net per capita income of less than 200 yuan 2 years ago, 35.2 percent earn more than 200 yuan today. Among those that had an income of between 200 and 500 yuan, approximately 24 percent now earn more than 500 yuan. Such a speed of becoming rich comes about faster, takes place earlier, and is higher for some than for others. This is an inevitable process in realizing the goal of prosperity for all. It is impossible either to separate or to equate the goals to be fought for and the process of attaining them. Realization of the goal of prosperity for all rests on state adoption of correct policies. While permitting some people to become rich first, certain economic transfers and stimuli must be used to arouse and encourage the enthusiasm and creativity of others, thereby stimulating more people and encouraging and supporting them to action for gradual movement in the direction of becoming rich. Only by correct handling of the relationship between becoming rich earlier and later

and prosperity for all is it possible to both acknowledge the spread and keep it within reasonable bounds at the same time, preventing excessive gaps and helping rapid all-around development of a socialist commodity economy to set the stage for prosperity for all.

2.7. The survey revealed that coordination between development of a commodity economy and development of a cooperative economy helps people obtain equal conditions and opportunities for development, and prevents excessive gaps in the spread of income in a microeconomic sense. Analysis of survey data on some people whose net per capita income averaged approximately 1,000 yuan showed that in villages in which there was general coordinated development of a commodity economy and a cooperative economy, the gap between high and low income households was smaller at 1:6.02. In villages in which a commodity economy had developed but the cooperative economy's centralized administrative levels were fairly weak, the gap between high and low income households was larger at 1:10.11.

Of course, in a macroeconomic sense, prevention of an excess gap in the spread of people's incomes requires that the state use prices, taxes, financial and credit policies to provide support to areas that are developing more slowly, to bring under control certain inequitable benefits, and to regulate the distribution and redistribution of income.

[13 Jan 88 p 2]

["Status of the Development of Economic Diversification—Aggregate Report (3) on Rural Regular Observation Point Survey for 1986"]

[Text] CPC Central Committee Secretariat, Rural Policy Research Center; State Council Rural Development Research Center; and Rural Socio-Economic Survey Office

Summary of Contents: The leading position of family occupations has become stronger. This has been manifested in an increase in peasant household ownership of fixed assets, in family occupations accounting for the largest amount of gross income, and in a strengthening of the trend toward family employment in more than one job. Its continued development faces two problems, namely that despite a slight increase in the amount of farming, plots remain very small; and despite an increase in socialized services, they are still far from meeting needs.

The village and team cooperative economy has revived. This shows up primarily in the following ways: Fairly rapid increase in productive fixed assets, and fairly large increase in income from collective occupations. Nevertheless, for most areas, it remains impossible to come to the conclusion that development of collective occupations has been faster than development of family occupations.

The outlook is for steady development of economic partnerships. The number of partnerships has decreased, but they have become larger; they have begun to change from blood or kinship organizations to economic partnerships.

The hiring of labor has increased.

Leading Position of Family Occupations Stronger

3.1. Peasant family ownership of fixed assets has increased. Reform of the rural economic system resulted in a major substantive readjustment of rural ownership relationships. Once the position of rural households as production units had been established, ownership of productive fixed assets increased rapidly. A 1986 survey of sample households showed ownership of productive fixed assets at 940 yuan per household (original value, and the same applies hereinafter), a 42 percent increase in 2 years. As consumption units, peasant family ownership of non-productive fixed assets increased even faster. As of the end of 1986, the sample households owned 625 yuan per household worth of non-productive fixed assets. Increase in peasant household property ownership caused a change in the rural property structure. According to statistics from the surveyed villages, peasant household-owned and partnership-owned productive fixed assets accounted for 46.6 percent of all rural productive fixed assets. Except for a small number of villages having great economic strength, in 92.8 percent of the villages surveyed, peasant households owned 1.6 time again as many productive fixed assets as collectives. Clearly, in an overwhelming majority of villages, most of the property was owned by peasant households.

3.2. Family occupations accounted for the greatest portion of gross income (including both income from contracting and from self employment) in the rural economy. In 1986, income from family occupations totaled 53.5 percent of gross income in the rural economy. A look at income industry by industry showed 99.4 percent of income from farming as having come from family-run farms (a rise of 7.4 percentage points in 2 years), 97 percent of income in animal husbandry as having come from family livestock raising (a rise of 1 percentage point in 2 years), and 80 percent of income from forestry as having come from family occupations. Only in the fishing industry was there a decline in the percentage of income attributable to family occupations from 24.3 percent in 1984 to 17.3 percent in 1986. The scope of peasant family occupations has spread increasingly not only in primary industries but also in secondary and tertiary industries as well. In 1986, 61.9 percent of earnings in tertiary industries in villages surveyed came from family occupations; in secondary industries too, family occupations accounted for 12.1 percent of earnings.

In terms of the investment of labor, the workforce engaged in family occupations in 1986 amounted to 76.7 percent of the total workforce. Only 11.8 percent of the workforce could be found in village and team run collective occupations.

3.3. The extent to which family occupations produced commodities has increased steadily; however, there has been no clear cut trend of development toward specialization; instead, the tendency toward employment in more than one job has strengthened. Among the sample households, 85.3 percent of peasant households were engaged primarily in farming, but these peasant households invested only 60 percent of their total workforce in this main job, and income deriving from this main job also amounted to only 66 percent of the family's gross income. The amount of work invested and the amount of income derived from second jobs amounted to 40 percent and 34 percent respectively. Among households engaged primarily in animal husbandry, 44 percent of their workdays were invested in a second job, and 28 percent of their income came from the second job. Among households engaged primarily in working in industry too, only 67.1 percent of their workdays were invested in their main job. Another 21.2 percent and 8.2 percent of their workdays were invested in farming and animal husbandry. Income from their primary job was 79.1 percent of the total, another 11.5 percent coming from farming, and 4.2 percent coming from animal husbandry.

Specialized households have developed slowly in rural villages, and this demonstrates from yet another angle the difficulty family occupations have in taking the road of specialized production. In 1986, 3.89 percent of the sample household were specialized households. This number had increased by only 0.34 percentage points in 2 years, and the number of specialized households engaged in farming, particularly grain production, was gradually declining.

For households to work at two jobs makes a certain amount of sense at the present time. This is consistent with the seasonality of agricultural production, and it helps make use of slack times and part time labor in families to make more income. Working at more than one job makes for great adaptability, reduces economic hazards, and is consistent with the level of productivity at the present stage. Additionally, working at two jobs reflects the peasants' unwillingness to give up the land. Rise in the level of specialization of agricultural production will depend on increasing the productivity of rural villages, strengthening the social service system, and perfecting the marketing system. This will be a gradual process.

3.4 Continued development of household occupations faces two major problems. First is that despite a slight increase in the amount of farming, plots remain very small. Comparison with 1984 shows that among sample households engaged in farming, the amount of cultivated land per household had increased 3.37 percent, and the number of plots of cultivated land per household had decreased 12.4 percent; however, the per household amount of cultivated land was only 9.2 mu divided into 9 different plots, each plot averaging 1.02 mu. Each mu was worked by an average of 2.5 workers. A statistical

breakdown shows that in 38.6 percent of the sample households, the amount of land farmed per household was less than 5 mu (an average of 2.76 mu); in 32 percent of sample households, the amount of land farmed per household was between 5 and 10 mu (an average of 7.02 mu); and in 13.1 percent of sample households, the amount of land farmed per household was between 10 and 15 mu (an average of 11.99 mu). Among household farming fewer than 10 mu, each household's farmland was divided into 9.4 plots on average, each plot contains an average of only 0.49 mu. The small size of plots is a major element that prevents families from deriving full advantage from farming. The second problem is that despite an increase in social services, they are still a long way from meeting needs in the development of family occupations. Survey statistics show that among the 10 regular pre-production and post-production services needed, in fewer than 50 percent of village and team run collective economies is there any centrally organized irrigation, and there is no centralized purchase of the means of production, such as chemical fertilizer, for peasant households. Seventy percent of villages are unable to centrally plan farm machine operations, plant protection, and livestock epidemic prevention. In 90 percent of villages no service is provided whereby peasants can sell their fresh agricultural and sideline products. Failure to perfect the social service system means that many peasant households have to rely on themselves to complete the entire production and marketing process. Not only does this reduce the social productivity rate, but it also limits rise in the degree of specialization of family occupations.

Revival of the Village and Team run Cooperative Economy

3.5. During the early phase of contracting linked to output, a considerable number of communes and brigades were unable to perform their required organizational functions in the new two tier system of occupations because of changes in duties, and a reduction in taxes on receipts from collective occupations. Results of the regular observation show a marked change in these circumstances during the past 2 years. As each level in the two tier system of occupations has move ahead together, development of the village and team run cooperative economy has been faster than development of family occupations. This has shown up principally in the following ways:

First has been a speedier increase in productive fixed assets. Comparison of 1984 with 1986 showed a 66.7 percent increase in the original value of productive fixed assets collectively owned by each of the villages surveyed. (Among the fixed assets, 70.4 percent were the fixed assets of village and team run enterprises), and peasant owned productive fixed assets increased 42 percent during the same period. During the process of reform, collectively owned property in quite a few places when through a process of growth and decline. Take 11 regular observation sites in Hebei Province, for example,

where village and team run collectively own productive fixed assets had an original value averaging 141,000 yuan per village in 1987. During the 1984 survey, this value had declined to 83,000 yuan in a 41.2 percent fall. By the end of 1986, it had again increased to 166,000 yuan, which was greater than the 1978 amount.

Second was a speedier increase in income from village and team run collective occupations and a rise in the percentage. Comparison of 1986 with 1984 shows, on average, a 1.4 times greater increase in income from collective occupations in each surveyed village. During the same period, the increase in income from family occupations was 34.4 percent. Income from village and team run collective operations accounted for 32.3 percent of gross income from the total rural economy, up 10.5 percentage points from 1984.

3.6. This revival of the village and team run collective economy was likewise extremely unbalanced in terms of the overall level. In terms of the villages surveyed in the three major economic zones, ownership of productive fixed assets in village and team run collectives during the past 2 years has shown an 85.3 percent growth in the eastern zone, a 35.1 percent increase in the central zone, and an 11.9 percent increase in the western zone. Looked at in terms of income from village and team run collective occupations, income from village run enterprises accounted for 87.5 percent of income from collective occupations; however, 120 villages (42 percent of the villages surveyed) had no income from village run enterprises, and 100 of these (35.7 percent of the villages surveyed) had neither income from village and team run enterprises nor income from any other village and team run collective occupations. They relied solely on peasant household withholdings to keep the village collective organization running. Most of the increase in income from village and team run collective occupations also occurred in the eastern zone where it increased by 173 percent in a 2 year period, which was more than double the increase in the central and western zones. The survey showed that though village and team run collectives had achieved speedy development in some places, which was manifested in an outstanding position of dominance; nevertheless, development remains slow in most areas today. One cannot come to the conclusion that development of collective occupations has been everywhere faster than development of family occupations.

Outlook Is For Steady Development of Economic Partnerships

3.7. Regular observation has shown that all forms of economic partnerships have been engaged in a self-perfecting process of division, elimination, and reformation in response to their internal and external environments during the past 2 years, and they show a trend toward steady development. Among the villages included in this survey, there was a total of 547 different economic partnerships, or an average of 1.95 per village. By comparison with 1984, the number of partnerships

had decreased 45.4 percent; nevertheless their size had expanded. Most partnerships are composed of peasant households. On the basis of each household constituting a participating unit, the number of participating units in each partnership increased from 4.3 to 5.9, a 37.2 percent increase. The number of people employed rose from 8.7 to 12.2, an increase of 40.2 percent. In the villages surveyed, 11.2 percent of the sample households and 3 percent of the workforce were members of partnerships. The original value of productive fixed assets per partnership rose by more than 18,000 yuan from 1984, an almost sevenfold increase. Total capital increased by 48,000 yuan in a 7.7-fold increase. Income from work performed increased by 58,000 yuan in a 2.34-fold increase. A look at the three major economic zones shows a contrary trend in the western zone where the number of partnerships increased by more than threefold while tending to decrease in size, the number of personnel employed falling 47.3 percent, and the amount of productive fixed assets declining 14.4 percent. The speed of development, the form of organization, and the size of operations of partnerships in their role as economic entities for the development of commodity production that the peasants have voluntarily organized are bound to meet needs in each area's development of commodity production, and change as needs change.

3.8. In the process of their self-perfection, partnerships began to change from blood or kinship organizations to economic organizations. Observation has shown that as the peasants have gained a better understanding of commodities and a clearer view of goals, there has been a decrease in partnerships in which peasant households are linked by kinship, and an increase in the number of economic organizations linked by common interests dictated by the needs of production; the number of specialized partnerships and partnerships that cut across village lines has increased; and partnerships made primarily to obtain funds and manpower account respectively for 69 percent and 20 percent of all partnerships. In management and administration, more than 80 percent of partnerships have instituted a stock share system, and they have put management on a businesslike basis. Thanks to the increasing optimization of the organizational structure and the management structure, substantial rise has taken place in both the labor productivity rate and economic results from partnerships. In 1986, profits per partnership averaged 18,500 yuan for a 23.1 percent profit rate. Each partner household created an annual net profit of 1,078 yuan (up 64.2 percent from 1984), and the labor productivity rate rose 66 percent from 1984. The profit rate was 1.2 percentage points higher, and the amount of profit created per partner household was 45 percent higher than that of the village and team run enterprises surveyed at the same time. In the distribution of benefits, partnerships have also begun to devote attention internally to the correct handling of the correlation between accumulations and consumption. In 1986, 5.7 times again the amount of net profits were used by each partnership to expand reproduction than in 1984, and the amount of revenue paid to the

state increased 5.2-fold. Individual income in partnerships also increased correspondingly. In 1986, 11,000 yuan of profits was used to provide bonuses to stockholders in partnerships, a 69 percent increase over 1984. Profits distributed as bonuses were 44.3 percent of gross profits, a 10 percentage point decline from 1984.

3.9. Development of partnerships innately lacks a needed control system. Internal control in some partnerships is not good: ledgers are not complete; and property relationships are not explicit, resulting in numerous conflicts among their members. In the choice of industries, 56.2 percent of all partnerships are engaged in secondary industries where because of the limitations of markets and resources, their speed of development is markedly slow. In terms of the external environment, they lack needed policy regulation to promote their healthy development.

Hiring of Labor Has Also Developed

3.10. Data from regular observation shows continued development during the past 2 years of both rural hiring of labor and of private enterprises. In 1986, 0.74 percent of all the households sample were households hiring hands for longterm work (continuously hired for 1/2 year or more), a 0.19 percentage point rise over 1984. Among the sample households that hired all their work done, the above mentioned households hiring long term labor accounted for 13 percent. Another 87 percent of the households hired hands for temporary work, the number of temporarily hired hands amounting to 68 percent of all hired hands.

The survey showed an increase in the amount of hiring. Among households hiring labor, those hiring more than eight people accounted for approximately 20 percent of the total number of households hiring labor. Among households hiring more than eight laborers, hirings per household increased 2.7 times from 1984.

3.11. The following two types of peasant households did most of the hiring of labor. First was specialized households possessing a certain amount of technical expertise. Thirty percent of specialized households hired labor, 26 percent of them hiring more than eight people. Second was high income households. Households having a gross income of more than 10,000 yuan numbered 1.45 percent of the total number of sample households, and 28 percent of these hired labor, 37 percent of them hiring more than eight people.

3.12. The economic income of the employer and the employee can be characterized in the following several ways. First, the economic results obtained by the employer (the household hiring the longterm laborer) declined somewhat, and for every input of a workday, his net income rose. In 1984, each household hiring labor showed a per household income of 7,340 yuan. In 1986, this dropped to 6,612 yuan, a 12.4 percent drop. However, net earnings per workday inputted increased from

8.10 yuan in 1984 to 10.90 yuan in 1986, a 34.6 percent rise. Second, the hired hand's daily wages rose. In 1984, a hired hand earned a wage of 2.15 yuan per day. In 1986, this rose to 4.20 yuan, a 95.3 percent increase. Third, there was a shrinking of the spread between the employer's and the employee's income. Take the daily wage, for example. In 1984, the employer's daily wage was 4.2 times again as much as that of the employee. In 1986, this had shrunk to 2.7 times again as much.

[14 Jan 88 p 2]

["Industrial Restructuring and the Reasons Therefor—Aggregate Report (4) on Rural Regular Observation Point Survey For 1986"]

[Text] CPC Central Committee Secretariat, Rural Policy Research Center; State Council Rural Development Research Center; and Rural Socio-Economic Survey Office

4.1. The rapid development of non-agricultural industries has been an outstanding feature in the changes that have taken place in the structure of rural industry. Between 1984 and 1986, income of primary industries in all of the surveyed villages increased by an average 23.2 percent, accounting for 42.3 percent of gross income in the rural economy, a decline of 12.7 percentage points. In secondary industries, income increased 115.7 percent to become 44.3 percent of rural gross income, and in tertiary industries income increased 81.4 percent, accounting for 13.4 percent of rural gross income for a 1.3 percentage point rise. The steady growth of primary industries, and the rapid growth of secondary and tertiary industries show that restructuring of rural industries has scored remarkable results.

4.2. Looked at in terms of its internal structure, development of non-agricultural industries has occurred primarily through rapid development of rural industries. In terms of form, it has been primarily the rapid development of village and team enterprises. For purposes of observation, secondary industries were divided into industry and the construction industry, and tertiary industries were divided into the transportation industry, businesses, the beverage industry and the service trades. The speed of income growth in industry during the past 2 years placed first among all industries, increasing 2.33 times, and accounting for 71.2 percent of income in the secondary and tertiary industries, up 8.3 percentage points. Businesses, the beverage industry and the service trades accounted for 8.0 percent, up 0.2 percentage points. Transportation income increased in absolute figures, but fell as a percentage. Income in the construction industry fell even in absolute figures. The recession in the construction industry resulted not only from objective factors, but also because of its innately rather poor quality and lack of competitiveness. Village enterprises have developed swiftly during the past 2 years, each village setting up 2.8 of them. Income from village and team enterprises in each of the villages surveyed

averaged 536,000 yuan in a 3.28-fold increase. Their newly produced income accounts for 81.5 percent of the gross increase in income in secondary and tertiary industries. Income from village and team enterprises amounted to 56.4 percent of the non-agricultural income for all villages, an increase of 22.3 percentage points.

4.3. Within agriculture, fishing industry earnings increased most rapidly, the percentage of increase rising markedly. Despite increases in income in farming, forestry, and animal husbandry, the percentages declined. Average income figures for farming, forestry, animal husbandry, and the fishing industry for the past 2 years in all of the villages surveyed showed a 105.1 percent increase in the fishing industry, a 4.1 percentage point rise to become 9.1 percent of the total for the rural economy. In animal husbandry, income increased 20.2 percent, up 0.5 percentage points to 21.5 percent of the total for the rural economy. In farming, income increased 17.3 percent, up 3.3 percentage points to 66.1 percent of the total for the rural economy; and in forestry, income increased 13.9 percent, up 0.3 percentage points to 3.3 percent of the total for the rural economy. Though the speed of income increase in farming was fairly slow in terms of the changes in the internal structure of agriculture, since the base figure was large, farming still accounted for 50.3 of the newly produced income, while the percentages derived from forestry, animal husbandry and the fishing industry were 2, 19.5, and 28.2 percent respectively. The foregoing figures show little restructuring of the industries that make up agriculture, and that the trend was basically toward no change.

4.4. Within the farming industry, income increased rapidly from the growing of fruits, tea, mulberry, melons, vegetables, and cash crops, the percentage rising. Despite a rise in income from the growing of grain, there was a decline in percentage terms. During the past 2 years, income from the growing of fruit, tea, and mulberry has increased 80 percent in the villages surveyed, up 2.5 percentage points to 7.1 percent. Income increase from the growing of melons and vegetables was 36.1 percent, up 1.3 percentage points to 9.7 percent. Income from the growing of cash crops rose 22.4 percent, up 0.8 percentage points to 18.2 percent. Grain crop earnings increased 9.6 percent (1.6 percent after adjustment for price increase factors), up 4.6 percentage points to 65 percent. During the past 2 years, 61 percent of the increase in income in the farming industry has come from non-grain crops.

4.5. In regional terms, the direction of change in the industrial structure was the same in all regions. This was manifested everywhere in a decline in income derived from agriculture (the primary industry), and a rise in income derived from non-agricultural industries (the secondary and tertiary industries) as a percentage of income in the rural economy. The extent of readjustment of the industrial structure was also about the same;

however, differences in structural levels were substantial. The ratio of agriculture to non-agriculture in the villages surveyed in the eastern zone was 3:7; in the central zone 5:5; and in the western zone 6:4. The percentage of non-agricultural industries declined incrementally from east to west.

4.6. Changes in the three tiers of the rural industrial structure showed a change in the traditional, unitary, and sealed off structure of "agriculture - farming - grain." A new type of industrial structure of all-around development of "grain, cash crops, and miscellaneous crops — farming, forestry, animal husbandry, and the fishing industry — primary, secondary, and tertiary industries" has begun to come into being. The primary agent powering this transformation of the rural industrial structure is industrial benefits. Industrial benefits include benefits from industry itself, and comparative benefits from industry. With regard to benefits from industry itself, there has been a slight decline in primary industry during the past 2 years, and a substantial decline in secondary and tertiary industries. Net earnings per 100 yuan of operating income in the secondary industries fell from 32.80 yuan to 25.60 yuan. In the tertiary industries, it fell from 60.20 yuan to 55.80 yuan. This substantial decline of benefits in the secondary and tertiary industries brought about a decline in net earnings per 100 yuan of income in the rural economy overall from 51.80 yuan to 44.00 yuan, a decrease of 7.80 yuan. A rise in prices for raw and processed materials, tight money, and poor management and administration are main reasons for the decline in secondary and tertiary industry benefits. Survey of 786 village (or team) run enterprises in the villages surveyed showed 6.5 percent as having lost money in 1986.

The decline in benefits within industries has not yet led to a change in comparative benefits among industries. Survey data revealed a close correlation between changes at different levels in the industrial structure and comparative benefits from industries. If net income created per unit of labor or per workday are used to judge an industry, in primary industries, net income created per workday was only 861 yuan, while it was as much as 1,977 yuan in secondary and tertiary industries, or 2.3 times again as much. Among the farming, forestry, animal husbandry and fishing industries, net earnings per workday in the fishing industry were 6.10 yuan, 1.1 times the amount from forestry, 1.5 times the amount from farming, and 4.1 times the amount from animal husbandry. Within the farming industry, net earnings per workday from the growing of cash crops, melon and vegetable crops, and fruit, tea and mulberry were 4.55 yuan, 5.22 yuan and 7.30 yuan respectively. This was 1.2, 1.4 and 1.9 times net earnings per workday from grain crops.

4.7. Production of certain goods that are in an unfavorable position in terms of benefits returned has fluctuated or declined in varying degrees during the past 2 years. Only cotton and live hogs are taken as examples here.

Cotton: Statistics from villages surveyed in cotton growing areas show an approximately 30 percent decline between 1984 and 1986 in the area planted to cotton, and a more than 30 percent decline in cotton output. This resulted, to a very large extent, from a relative decline in benefits from the growing of cotton. During the past 2 years, the state has abolished a series of preferential measures for cotton production. By abolishing the single provision of award sales of grain for the growing of cotton, cotton growers had to pay 0.10 yuan more for each jin of grain they bought. The price ratio differential between cotton and grain went from 1:10-12 to 1:5-6.

Live Hogs: Comparison of 1986 with 1984 shows a 2 percent decline in the number of hog raising households among the sample households, and a 1.1 percent decline in the number of sows held in inventory at year's end. The main reason for this decline was a rise in the cost of feeding the hogs, and a pronounced seasonal hiatus between production and sales that showed up in a concentrated way in a decline in benefits. Among primary industries, economic benefits were lowest from animal husbandry (more than 90 percent of which is the growing of hogs). For each 100 yuan of income, 62.60 yuan (a rise of nearly 10 percent in 2 years) had to be spent on production wherewithal. This was higher than the 35 yuan for farming, the 53.60 yuan for forestry, and the 30.70 yuan for the fishing industry. In 1986, net income per workday invested in animal husbandry was 12 percent less than in 1984.

4.8. The structure of industry results from the interplay of demand and resources. The sensibleness of the rural industrial structure shows up in its adaptability to demand, i.e., maintenance of flexibility in ability to react to market demand. However, it must be realized that peasant ability to restructure on the basis of market demand and benefits from industry is limited, and subject to numerous restrictive factors.

Self-Sufficiency Demand. To a very large extent, peasants consider first how they can satisfy their own needs in producing certain agricultural products. Survey of grain production and consumption in sample households in 1986 showed, with regard to production, that 66 percent of grain output went for self consumption. With regard to consumption, 88.3 percent of the grain went for human consumption and 80.2 percent for livestock feed.

Need To Fulfill Set Production Quotas. In the production of grain and cotton, peasants can make readjustments on the basis of benefits from an industry only so long as they insure fulfillment of contract procurement quotas.

Market Capacity and Information Limitations. The products of economic diversification constitute an important part of peasant household commodity production. Even though their production may develop fairly rapidly, their sale may be frequently adversely

affected by changing market supply and demand and disorderly feedback of price information that causes sudden ups and downs and uncertainties in production.

Limitations Imposed by Local Social and Economic Conditions and the Innate Nature of Operations. A look at the quality of sample households showed households possessing expertise to have produced 55.8 percent of income in the primary industries, and 44.2 percent of the income in the secondary and tertiary industries. Households without expertise produced 84.7 percent of the income in primary industries, and 15.3 percent of the income in secondary and tertiary industries. The higher the educational and technical level of a peasant household, the greater the percentage engaged in non-agricultural industries.

Only steady reduction of the foregoing limiting factors can strengthen peasant ability to restructure on the basis of benefits an industry provides, thereby increasing the guiding role of market demand for further optimization of the industrial structure.

[16 Jan 88 p 2]

["The Good News and the Bad News About the Grain Problem—Aggregate Report (5) on Rural Regular Observation Point Survey For 1986"]

[Text] CPC Central Committee Secretariat, Rural Policy Research Center; State Council Rural Development Research Center; and Rural Socio-Economic Survey Office

Turn For the Better in the Production Picture

5.1. Regular observation has demonstrated that during 1986 all jurisdictions strengthened leadership over grain production, increased their investment in it, and raised the market price of grain producing a turn for the better in the grain picture. According to the sample household survey, in 1986 the area sown to grain averaged 9.93 mu per household, and gross output of grain averaged 2,479 kilograms per household.

The amount of grain available to society increased, and the commodity rate rose, the degree of increase in cash income from the sale of grain was greater than the degree of increase in the amount of grain sold. In 1986, sample households sold 836 kilograms of grain per household, up 22.9 percent from 1984. The commodity rate was 33.7 percent, up 6.4 percentage points. Cash income from the sale of grain averaged 376.80 yuan per household, up 46.1 percent. This was 23.2 percentage points higher than the degree of increase in the amount of grain sold.

5.2. Analysis of the survey shows that the growing of grain still exhibits a lot of vitality in most places where farming predominates. Favorable factors are as follows: First, is the not very great elasticity in market demand

for major cash crops such as oil bearing crops, hemp and tobacco, and for melons and vegetables, so the grain growing area tends to remain constant. Second, there can be no great drop in grain market prices, so this maintains a stimulating effect on the growing of grain. Third, an increasing number of peasant households are learning to apply modern applied techniques that have raised the utilization rate for material inputs and output per unit of area. Fourth, cadres and peasants alike increasingly appreciate the importance of grain, and they have come to understand the rationale of a combination of "no work, no wealth," "no business, no vitality," and "no agriculture, no stability." Consequently, so long as these places pay attention to building up reserve strength for agricultural production, adopt appropriate measures to protect peasant enthusiasm, and provide the means of production at reasonable prices, maintenance of steady increase in grain production in normal harvest years is possible.

5.3 However, there are two kinds of places in which grain production may not be entirely as one might wish for some time. One of them is places having a large population relative to land, those in which the former centralized procurement base figures were large, and those in which the fixed procurement starting point is high. The other is places that are fairly economically developed and where economic diversification is vigorous. For many of the peasants in these areas, the main choices are decreasing the grain growing area and increasing the cash crop growing area in order to increase their income, and decreasing investment in grain crops while increasing investment in cash crops as the principal means of maintaining benefits. This has led to the fluctuation or even a curtailment of grain production. Unless policies are markedly readjusted or unless there are major technological breakthroughs, grain production in these areas will find itself in a situation of "no increase (meaning commodity grain) and no decrease (meaning grain for their own consumption)."

Several Signals That Deserve Attention

5.4. One signal meriting attention that has appeared in grain production is peasant household reduction of their investment in grain production. Less of sample household expenditures were for the development of production than for personal consumption, and the amount used for agriculture, particularly for grain production, was even less and showed a trend toward decline. A look at the percentage of investment shows 288.30 yuan per sample household was spent on grain crop production in 1986. This was 28.4 percent of family spending for production, a 9.5 percentage point decline from 1984. A look at investment shows that between 1984 and 1986, the greatest decrease in the absolute amount spent was on grain production, which declined 8.7 percent. There was also a slight decline (-0.9 percent) for forestry; for all other industries, there was an increase. Regular observation showed that apart from some villages in which

farming was paramount where peasant household investment in grain growing land increased because there were few secondary and tertiary industries, and because there was little economic diversification, in most villages the amount of investment decreased in varying degrees. The decrease was even more serious in some economically developed areas. Survey of 1,000 households in 10 villages in Zhejiang Province showed that during the 2 year period, the increase in value of draft animals, large and medium size farm implements, and machinery used in farming, forestry, animal husbandry, and the fishing industry increased by less than 0.7 percent of per capita income. This new problem in development of the rural economy is directly related to the relatively low benefits obtained from farming grain, and the heavy social burdens that grain growing peasants carry. A look at net earnings per workday shows 3.20 yuan less from growing grain than from growing fruit, tea, or mulberry. Withholdings and assessments that must be paid amount to 110.40 yuan per household for farming households that grow mostly grain. This is 91.7 percent higher than for peasant households primarily engaged in other industries. The first of these two expenditures amounts to 5.7 percent and the second to only 1.4 percent of net income from production. In Hunan Province, the peasants say, "It is better to grow cotton than grain, and better to grow melons than cotton, and better to grow hemp than melons." The peasants in Jiangsu say, "One, two, three, four, five; growing grain makes it hard to stay alive." Even though the peasants feel that growing grain is not worthwhile, in the absence of any other avenues of employment, they have no choice but to continue to engage in grain production. As a result, they have little interest in farming, and not very high enthusiasm for investing money in it. As other employment opportunities increase, this conflict will become more pronounced.

5.5. Another signal that merits attention is the continued decrease in cultivated land, and a general decline in soil fertility. Comparison of 1978 with 1984 shows a 40.5 mu decrease in each village surveyed, a 1.5 percent decrease. In 1986, the amount of cultivated land in each village surveyed was 65.6 mu less than in 1984, a 2.5 percent decrease. The speed of decrease in cultivated land is attributable primarily to excessive use of land for capital construction and the building of peasant houses, as well as to the reversion of farmland to forests or return to pastureland.

The stress on land use while shortchanging nurture of cultivated land is manifested mostly in reduction of the green manure growing area, the scant use of farmyard manure and of superior quality compound fertilizers, and a decline in soil fertility. A survey from 18 observation sites in Anhui showed a situation in most villages of "no one removing nightsoil, no one cutting green grass, and no one carrying away pond mud." A survey done in Jiangsu Province showed a more than 20 percent reduction as compared with 1984 in the amount of organic fertilizer applied per mu in some villages, the organic content of the soil decreasing 0.01 percent each year, and

the benefit derived in boosting output of grain by 2.6 kilograms per kilogram of ammonium carbonate declining to 0.8 kilograms. In some villages surveyed in Liaoning Province, more than half the land area received no fertilizer at all, seriously hurting steady increase in the land's grain yields. In recent years many peasants have pinned their hopes on increasing grain yields by increasing the application of fertilizer, the amount of fertilizer used rising rapidly. However, the amount of compound fertilizer increased only 12 percent, for a very great gap between crop growth needs and the soils ability to supply them.

5.6. The basic facilities for agricultural production have yet to be genuinely strengthened, and in some places their continued weakening has yet to be halted. An example is water conservancy projects that have grown old, have not been repaired, and are not looked after. The area they irrigate has grown smaller, and their ability to withstand floods and droughts has been weakened. Comparison of 1986 with 1984 showed a 9.4 percent decline (a 112 mu reduction in each village) in the effectively irrigated area in villages surveyed, or 48.5 percent of the total cultivated land area in a 44.1 percent decline. The decline in the machine irrigated area was greater than 20 percent. Despite a 9 percent increase in pump wells (the addition of 0.25 wells per village), the utilization rate declined.

5.7. The relationship between the peasants and the grain fixed procurement problem is becoming strained. The change of the system of centralized and assignment procurement of grain to a fixed contract procurement system ushered in the use of economic methods to stimulate grain production. But for various reasons, in actual implementation the fixed contract procurement system has changed into a command quota, and purchasing on commission has become assigned procurement with an added price. The amount of grain available to the market is thus greatly restricted by the foregoing two levels of added charges. In order to maintain their own self determination about what they farm and their own economic interests, the peasants passively accept the fixed contract procurement system, which makes the fulfillment of fixed procurement quotas very difficult. As a result, many places have broken down their fixed procurement and their consignment procurement and assigned them to villages, which have rigidly made exactions from individual households or have even gone from house to house pressing for grain and collecting money, much to the resentment of the peasants. The strengthening of various administrative measures will not only militate against solving the grain problem in accordance with the requirements of a planned commodity economy, but they will strain relations with the masses.

The Key To Solving the Grain Problem Lies In Increasing the Income of Grain Growing Peasants

5.8. Regular observation showed the greatest sentiments of the peasants on the grain issue to be that rigid setting of fixed procurement quotas when grain prices are overly low and prices for the means of production have risen too swiftly, with "no reduction in the amount asked for (meaning fixed grain procurement), and no assurance about what is to be given (meaning the necessary means of production and the 'three coupled' materials)" means economic hardship. Cadres in some grain growing areas have pointed out that when the state is accumulating funds for the "four modernizations," it is understandable that the peasants should have to make a little greater contribution; however, in a situation in which the centralized and the assigned procurement system for most agricultural products has been reformed and prices liberalized, if continued use is made of the "second tribute and taxes" to accumulate funds, this will mean placing the burden on the backs of some of the grain producing peasants. Objectively, such action is regulation in reverse: the greater the relationship of a product to the national economy and the people's livelihood, the greater the burden on the producer and the less the benefits to him, making its production increasingly difficult. Reform of the grain issue requires finding a method for equalizing the burdens and harmonizing the interests of all parties in order to regulate relationships among all rural industries and between the cities and the countryside.

5.9. The state, collectives, and peasant households must all increase investment in grain production to increase reserves for agricultural production. First of all, it is necessary to genuinely increase understanding of the importance of grain production, and realize that in China with a large population relative to available land, grain will remain a problem requiring solution for a long time to come. As the national economy develops and the people's diet changes, the amount of grain required will become increasingly great. Grain production positively cannot be treated lightly. The way of thinking and acting must be overcome that supposes that it takes a long time to recover investment in grain production, that results are slow in coming, and that it is not economically worthwhile, and thus that the financial and material resources that should be used for grain production ought to be shifted to projects that pay off quickly. National economic plans must insure a proper proportion of investment in agriculture. Policies must be used to encourage collectives and peasants alike to strengthen their enthusiasm for investment. The peasant masses must be relied on to increase their investment in agriculture, and cooperative economic organizations must also assign an equitable proportion of accumulations for use in the building of agriculture. They should particularly use to the full the abundant labor to be found in the countryside, and the low cost of labor to organize peasant labor to carry out the capital construction of agriculture and not miss this historical opportunity.

5.10. Development of grain production must emphasize reliance on science and technology, increase in yields, and increase in output, and not rely solely on expansion

of the cultivated land area, which will restrict the internal restructuring of agriculture. Modern applied techniques must be actively promoted to raise the utilization rate for materials inputted. Despite very little improvement in production conditions in some villages surveyed in 1986, it had been possible to increase grain production, nevertheless, primarily through the promotion of fine hybrid varieties, the use of plastic mulch and chemical herbicides, the application of the kinds of fertilizer that the soil needed, and such advanced, practical techniques. The survey showed that promotion of just these several techniques could increase yields by approximately 20 percent.

9432

Farm Machine Exports

40060143f Beijing *ZHONGGUO NONGJIHUA BAO* in Chinese 20 Jan 88 p 1

[Excerpt] In 1987, China earned \$53,090,000 in foreign exchange from the export of farm machines, a 49 percent increase over 1986.

Hunan Tea Exports

40060127a Changsha *HUNAN RIBAO* in Chinese 4 Jan 88 p 1

[Excerpt] In 1987, Hunan Province earned \$1,060,000 in foreign exchange from the export of green tea.

Heilongjiang To Try For Greater Percentage of Soybean Export Trade

40110013 Harbin *HEILONGJIANG NONGYE KEXUE [HEILONGJIANG AGRICULTURAL SCIENCE]* in Chinese No 4, 10 Jul 87 pp 18-20

[Article by Yao Zhenchun [1202 2182 4783], Lin Hong [2651 4767], and Zhang Guodong [1728 0948 2767], Soybean Institute, Heilongjiang Provincial Academy of Agricultural Sciences: "Accelerating the Breeding of Super Small Soybeans to Expand Exports in Foreign Trade"]

[Abstract] Heilongjiang has virtually no share in China's annual export to Japan of between 50,000 and 60,000 tons of super small soybeans that the Japanese use to make a traditional food called natto. The authors propose means for obtaining a greater share of the super small soybean export market by increasing alertness to the opportunity that exists, providing monetary incentives to growers, increasing yields of this kind of soybean, breeding new super small soybean varieties, and setting up production bases.

Should the proposal be adopted and the specific means described succeed, Heilongjiang's exports will compete not only with exports from elsewhere in China, but also with an additional 10,000 tons that Japan imports annually from United States and Canada, as well as Japan's own annual production of 20,000 tons.

9432

Migration of Flying Insect Pests Between Hong Kong and South China

40110012 Beijing *KUNCHONG ZHISHI [ENTOMOLOGICAL KNOWLEDGE]* in Chinese No 5, 1987 pp 26-64

[Article by Du Jingyou [2629 2529 4368]: "Preliminary Report on Hong Kong Migratory Flying Insects"]

[Abstract] Building on work done on the migration of flying insects by Williams in 1957, the author spent 3 years in Hong Kong observing the migratory habits of several kinds of leafhoppers, leaf rollers, and a cicada that are common pests in the paddy fields of south China. He noted the effects on migration of temperature and monsoon winds, and he recorded the proportions of male to female insects. His work, which holds significance for forecasting the time and likely severity of insect infestations in south China when the insect pests or their progeny return, is detailed in this article in which tables summarize his findings.

9432

Effects of Fusarium Toxins on Chick Immunity to Newcastle Virus

40110019a Lanzhou *ZHONGGUO SHOUYI KEJI [CHINESE JOURNAL OF VETERINARY SCIENCE AND TECHNOLOGY]* in Chinese No 9, 20 Sep 87 pp 3-5

[Article by Li Qinghuai [2621 1987 2037], Xin Deyi [6580 1795 7328], Zhu Tongxia [2612 1749 7209], Zhang Chi [1728 4654], Fan Guoxiong [5400 0948 7160], and Xu Binrui [1776 7001 5605], Veterinary Institute, Beijing Agricultural College: "Study of the Effect on the Humoral Immunity of Chicks of Fusarium Toxins Zearalenone and Trichothecenes"]

[Abstract] Much of the research conducted outside of China on the effects of two fusarium toxins, namely zearalenone (or F-2) and trichothecenes (or T-2), on livestock and fowl immunity has been with dosages far greater than the amounts to which livestock are naturally exposed, and for a short period of time. The purpose of the research covered by this report was to provide scientific data of use in improving the resistance to disease of chicken flocks. The method used was to test the effects on the antibody titer of epidemic Newcastle virus from the injection of low dosages over a long period of time in chicks. Protracted injection of a low dosage (800 ppb) of F-2 markedly lowered antibody formation in chicks; the T-2 showed no marked effect.

The article details the materials and methods used and the results obtained; it also provides an analysis of the results.

9432

Isolation of Toxin in Fusarium Graminearum
40110019b Lanzhou ZHONGGUO SHOUYI KEJI
[CHINESE JOURNAL OF VETERINARY SCIENCE
AND TECHNOLOGY] in Chinese
No 9, 20 Sep 87 pp 5-6

[Article by Wang Zhaoxian [3076 2507 6343], Xie Yufen [6200 3022 0433], Li Changsheng [2621 7022 3932], and Liu Xinyi [0491 1800 0001]: "Plow Oxen 'Black Water Diarrhea' Fusarium Toxin"]

[Abstract] This article reports the isolation and purification of the toxin in fusarium graminearum, which is found in mildewed hay and cattle feed in Shaanxi Province and which causes "black water diarrhea" in plow oxen. After culturing of the fungus, an extract was drawn and subjected to silica gel and thin-layer chromatography to derive deoxynivalenol CBD 1 toxin crystals. This marked the first time that CBD 1 had been obtained in China from an extract of fusarium graminearum, and it was the first toxin isolated from fusarium in the black water diarrhea belt.

The article outlines the methodology used to isolate and purify the toxin as well as experiments performed on the germination of peas disinfected with the toxin, none of which germinated.

9432

Isolation of Pure Species of Babesia Bigemina
40110019c Lanzhou ZHONGGUO SHOUYI KEJI
[CHINESE JOURNAL OF VETERINARY SCIENCE
AND TECHNOLOGY] in Chinese
No 9, 20 Sep 87 pp 25-26

[Article by Bai Qi [4101 0796], Yin Shixing [1438 0013 5281], Chen Zhenhuan [7115 7201 3883], Liu Guangyuan [0491 0342 6678], and Zhou Junying [0719 0193 5391], Lanzhou Veterinary Medicine Institute, Chinese Academy of Agricultural Sciences: "Research on Technique For Isolation of Single Sporozoon Strains From Ox Blood and Methods For Preserving Them—Isolation of Pure Strains of Babesia Bigemina"]

[Abstract] This article explains the methods and steps used to isolate a pure species of Babesia bigemina from oxen, and acknowledges similar work done with Boophilus microplus by Callow in 1961, bishop in 1973, by Dalglesh in 1978 and 1983, and by Guglielmone et al on Babesia bigemina in 1981. After detailing precautions to prevent the mixing of species and to derive a pure species from oxen, the article concludes by saying that results of the experiment were identical with those obtained by Dalglesh and by Guglielmone et al, and also confirmed that Babesia bigemina could not be spread during its larval stage as Callow had reported.

9432

Effects of Laser Radiation on Blood Enzymes of Sheep

40110015a Beijing ZHONGGUO SHOUYI ZAZHI
[CHINESE JOURNAL OF VETERINARY
MEDICINE] in Chinese No 9, 22 Sep 87 pp 6-8

[Article by Wei Suocheng [7614 6956 2052], Livestock Medicine Department, Northwest Nationalities College: "Study of Blood Serum Enzyme Changes When Sheep Were Injured by Laser Radiation"]

[Abstract] A helium-neon laser with an energy density of 7.52 joules per square centimeter was used to traumatize the skin of 16 sheep in order to determine what changes the radiation caused in the activity of four of their blood enzymes. It resulted in a marked rise in the activity of glutamic-oxaloacetic transaminase (GOT), did not increase the activity of either acidic phosphatase or lactic acid dehydrogenase (LDH), and had no marked effect on the activity of alkaline phosphatase.

The article cites nine different references including those of four Americans on the biological effects of laser radiation, and provides figures showing changes in the activity of the four enzymes tested.

9432

Outbreak of Pox in Mature Hogs Reported
40110015b Beijing ZHONGGUO SHOUYI ZAZHI
[CHINESE JOURNAL OF VETERINARY
MEDICINE] in Chinese No 9, 22 Sep 87 pp 19-20

[Article by Liu Ronggeng [0491 2837 1649], Animal Husbandry and Veterinary Medicine Station, Anji County Agriculture Bureau, Zhejiang Province: "Report on Outbreak of Pernicious Pox in Adult Hogs"]

[Abstract] Hog pox, or hog smallpox, is termed an acute viral infectious disease spread by contact that reportedly rarely occurs in mature hogs, yet has broken out on a large scale among mature hogs in Anji County in Zhejiang Province, producing a death rate averaging approximately 10 percent but as high as 21.8 percent in one household. Caused by a filterable virus, there is no effective medicine for preventing or treating it. This brief article reports clinical observation, pathological examination of dead animals, and treatment given to reduce the severity of symptoms.

9432

Study of Peanut Viruses Summarized
40110014 Wuhan ZHONGGUO YOULIAO [OIL
CROPS OF CHINA] in Chinese
No 3, 20 Sep 87 pp 73-78

[Article by Xu Zeyong [6079 3419 3057], Oil Crops Institute, Chinese Academy of Agricultural Sciences: "Study of China's Peanut Disease Viruses (Review)"]

[Abstract] The spread of three major peanut viruses in China, which had become severe by the early 1970s, prompted the beginning of serious research during the

mid-1970's, emphasis being placed initially on description of disease symptoms and factors involved in the viruses spread. Eventually several peanut leaf viruses were identified, namely peanut mottled leaf virus (PMoV), peanut mild mottle virus (PMMV), peanut mottle virus (PMV), peanut stripe virus (PStV), and cucumber mottled leaf virus (CMV), as well as peanut stunt virus (PSV), and tomato stunt and wilt virus (TSWV). Finally the laws governing incidence of these diseases were understood and progress made in their prevention and treatment. The principal peanut viruses are PMMV, CMV, and PSV, all of which are contained in seeds, and which are spread by aphids.

This fairly extensive article describes the distribution and economic significance of some of the viruses, their symptoms, and information about conditions for their spread. It also suggests some possible lines to be followed for the prevention and control of damage from them.

9432

Polymorphus Diploinflatus Found in Country
40110010 Tianjin XUMU SHOUYI XUEBAO [ACTA VETERINARIA ET ZOOTECHNICAL SINICA] in Chinese No 4, Nov 87 pp 279-280

[Article by Hu Jiande [5170 1696 1795] and Hou Guang [0186 0342], Veterinary Medicine Department, Shihezi Agricultural Institute, Xinjiang: "Discovery of Polymorphus Diploinflatus in China"]

[Abstract] During an examination of ducks and geese in Xinjiang Province, which began in November 1985, an acanthocephalid specimen was found that was subsequently verified as being a Polymorphus diploinflatus. Up until that time, only three polymorphidae had been found in China though more than 30 species were known to exist elsewhere in the world.

The polymorphus diploinflatus found in Xinjiang Province differed from the parasite of birds found in Sweden by Lundstrom in 1942 in body color, in the protrusion of its proboscis, and the location of the testes.

The article details the physical attributes of both the male and female of this species.

9432

Morphological Differences in Polymorphus Diploinflati
40110016c Lanzhou ZHONGGUO SHOUYI KEJI [CHINESE JOURNAL OF VETERINARY SCIENCE AND TECHNOLOGY] in Chinese No 11, 20 Nov 87 pp 61-63

[Article by Hu Jiande [5170 1696 1779] and Hou Guang [0186 0342], Veterinary Medicine Department, Shihezi Academy of Agricultural Sciences, Xinjiang: "Comparison of Geographical Differences in the Morphology of Polymorphus Diploinflati"]

[Abstract] This article compares the different physical attributes of Polymorphus diploinflati found in fowl in Xinjiang Province with P. diploinflati found by Lundstrom in Sweden in 1942, and by I.G. Khokhlova in the U.S.S.R. in 1966. Salient characteristics of P. diploinflati in each of the three areas are concisely charted on a table.

9432

Echinococcosis Testing in Four Western Provinces
40110016a Lanzhou ZHONGGUO SHOUYI KEJI [CHINESE JOURNAL OF VETERINARY SCIENCE AND TECHNOLOGY] in Chinese No 11, 20 Nov 87 pp 26-28

[Article by Bai Junying [4101 0193 5391], Bian Qihua [0593 0796 5478], Liu Xingfa [0491 5281 4099], and Liu Baoshuang [0491 1405 7175]: "Serological Survey of Echinococcosis in Humans and Livestock in Shaanxi, Gansu, Ningxi, and Sichuan"]

[Abstract] Antibody testing for echinococcosis was performed on 1,776 humans and livestock between April 1986 and February 1987, 456 or 25.68 percent of this total showing a positive reaction. The positive rate for humans was 12.01 percent. The indirect hemagglutination assay method was used for testing because it is highly specific, easy to use, requires no special equipment, and shows a reaction quickly.

This two page article details negative and positive reactions in various areas for both humans and livestock animals such as yaks, sheep, goats, and cattle.

9432

Sensitivity of Trypanosome Testing Reported
40110016b Lanzhou ZHONGGUO SHOUYI KEJI [CHINESE JOURNAL OF VETERINARY SCIENCE AND TECHNOLOGY] in Chinese No 11, 20 Nov 87 pp 38-40

[Article by Fang Yuan [2455 0337], Nie Haiyang [5119 3189 3152], and Ye Wanxiang [0673 8001 4382], Military Medical Institute, Logistics Department, Nanjing Military Region; and Li Zengren [2621 1073 0088], and Qin Yan'an [4440 1693 1344], Gaoyou County Veterinary Medicine Station, Jiangsu Province: "Direct Method For Microscopic Examination of Clumping in Capillaries of Yishi [0122 3044] Trypanosomes"]

[Abstract] This article compares the direct method with the pressure drop specimen method for microscopic examination of the clumping of trypanosomes in capillaries, concluding that the direct microscoping examination is 80 times more sensitive than the pressure drop specimen method. The article details the materials and methods used in tests with white mice, rabbits, and cattle.

9432

Survey of Coccidiospores in Sheep, Goats in Shaanxi

40110018a [Lanzhou ZHONGGUO SHOUYI KEJI
[CHINESE JOURNAL OF VETERINARY SCIENCE
AND TECHNOLOGY] in Chinese
No 12, 20 Dec 87 pp 18-21

[Article by Zhang Baoxiang [1728 1405 6116] and Guo Haijun [6753 3189 3182], Shaanxi Provincial Institute of Veterinary Medicine: "Survey of Types of Coccidiospores Found in Sheep and Goats in Shaanxi Province"]

[Abstract] Between May and October 1986, 200 goats and 100 sheep were examined in Shaanxi Province to determine the types, dispersal and infectiousness of the coccidiospores that cause the coccidiosis that stunts the growth of large numbers of animals in the province. The coccidiospores examined were *Eimeria arloingi*, *E. ahsata*, *E. caprina*, *E. christenseni*, *E. crandallis*, *E. faurei*, *E. granulosa*, *E. intricata*, *E. marsica*, *E. ninakohl-yakimovae*, *E. ovina*, *E. pallida*, *E. parva*, *E. punctata*, and *E. weybridgensis*.

Data about the shape, size, wall structure and color, egg membrane pores, sporocysts, and other features of the oocysts found in the small intestines or the dung of the animals appear in this brief article.

9432

Animal Diseases Traced to Fungus Toxins in Winter Fodder

40110018b [Lanzhou ZHONGGUO SHOUYI KEJI
[CHINESE JOURNAL OF VETERINARY SCIENCE
AND TECHNOLOGY] in Chinese
No 12, 20 Dec 87 pp 36-37

[Article by Zou Kangnan [6760 1660 0589], Nanjing Agricultural College: "Study (Brief Report) of 'Yellow Liver Disease' in Equidae and 'Yellow Contagious Disease' in Sheep and Goats in Ningxia"]

[Abstract] This article describes the research conducted to determine the causes of two diseases, one which afflicts horses, mules, and donkeys, and a similar one that afflicts sheep and goats between December and May each year, killing or debilitating them. The two diseases

are known only by their colloquial names, the one afflicting members of the horse family being called "yellow liver disease," and the one afflicting sheep and goats being called "yellow contagious disease."

Since the diseases appeared only after the animals had been brought in from pasture and fed indoors, the search for a pathogen began with the hay they ate. The search eventually narrowed to three toxin producing fungi, namely *Aspergillus nidulans*, *V. versicolor*, and *Sterigmatocystin*, and an initial determination was made that it was the *Sterigmatocystin* toxin that caused both the diseases. Further tests are underway.

The article provides the clinical symptoms for both diseases, explains how the search for a cause was conducted, and describes how the possible pathogens were found.

9432

Identification of Tobacco Wildfire Pathogenic Bacteria Isolated From Heilongjiang

40110017 Harbin DONGBEI NONGXUEYUAN
XUEBAO [JOURNAL OF NORTHEAST
AGRICULTURAL COLLEGE] in Chinese
No 4, 30 Dec 87 p 317

[English abstract of article by Ge Xin [5514 5450], et al., of the Phytopathology Teaching and Research Section]

[Text] Four isolates of plant pathogenic bacteria, causing the symptoms of brown lesions surrounded by pronounced chlorotic halos on tobacco in Heilongjiang Province, were identified as *Pseudomonas syringae* pv. *tabaci* morphologically, physiologically, biochemically, serologically and pathologically. These four isolates did not differ in bacterial characteristics from those reported in the literature, but they differed pathologically with the bacteria reported by Ribeiro. The bacteria tested could infect beans, soybeans, cowpeas, tomatoes, potato peppers, eggplants, cucumbers and Chinese cabbage, but they could not infect barley, wheat, sorghum, broad beans and cabbage. The bacteria reisolated from these hosts could incite the same symptoms on tobacco as those caused by tobacco wildfire bacterium.

9717/08309

RENMIN RIBAO Notes Declining Faculty Ages
OW311351 Beijing XINHUA in English
0651 GMT 30 Jan 88

[Text] Beijing, January 30 (XINHUA)—Chinese higher-learning institutions have completed employment of professors and associate professors, the "PEOPLE'S DAILY" reported today.

To date, 15,000 professors and 75,000 associate professors have been hired.

Some 65 percent of the professors and 60 percent of the associate professors obtained their qualifications in the past two years.

As a result, the average age of professors has dropped from 69 to 56, and that of associate professors from 56 to 53.

Some professors are below 40 years of age and some associate professors are below 30.

The State Education Commission has urged higher-learning institutions to reform professional title assessment and use their own initiative to employ teaching staff.

'New Taiwan Invasion Plan' Detailed

HK270637 Hong Kong CHIEH FANG [LIBERATION]
in Chinese No 114, Jan 88 pp 21, 22

["Secret story": "Communist China's New Taiwan Invasion Plan"—originally published in KUAI PAO.]

[Text] *In the past 5 years, the Chinese Communists have obtained many scientific and technological products for military purposes from the West, given the economic policy of opening up. Some analysts say that all these are designed for an attack on Taiwan.*

The Chinese Communists have not given up their intention to "liberate" Taiwan "with armed force." Moreover, they are stepping up military exercises. A source said that the Chinese Communist General Staff Headquarters has also revised an attack program for blockading five ports of Taiwan and cutting off communications between both banks of four rivers.

Eight Division-Level Cadres Sneak into Taiwan as Scouts

The source said: In 1979, the Chinese Communist General Staff Headquarters worked out "A Combat Program for the Liberation of Taiwan." In 8 years, the Chinese Communists, on the basis of this combat program, successively completed seven exercises in Hainan Island, Chongming Island, Liaodong Peninsula, and so on.

The source also said: The intelligence department and the combat department of the General Staff Headquarters successively sent eight cadres at and above the division level to Taiwan to conduct on-the-spot reconnaissance; they made a detour through Japan and the United States to gain entry as tourists. On the basis of reconnaissance results, a "Newly Revised Combat Program for the Liberation of Taiwan" was recently completed.

It was reported that this new Taiwan attack program consists of three parts.

The first step calls for an overall blockade of Taiwan, with the three ports of Kaohsiung, Keelung, and Taichung in the west, and Suao and Hualien in the east blockaded.

The second step calls for airdropping a number of Communist troops as a task force wearing Kuomintang military uniforms and toting M-16 rifles. They are to slaughter important party, government, and military heads of Taiwan and attack such important targets as airports, missile bases, radar stations, and so on, blasting away bridges over the Chungkangchi, Choshuichi, Yenshuichi, and Tanshuiho and dividing Taiwan into several areas isolated from each other, so that they can be captured one by one.

The third step calls for airdropping paratroopers with U.S.-made Black Hawk helicopters to capture airports and seaports, and establish bridgeheads. Then, troops are sent up, with Yun-7 and Yun-8 aircraft, transport ships, and landing boats landing at the I-lan area, which is not guarded by a strong force and cannot be easily reinforced. The aim is to gain a foothold at a minimum cost and then talk with the Kuomintang government to force it to come to terms with the threat of war.

10 Tasks Prepared for an Attack on Taiwan

The English-language ASIaweek reported 3 years ago that in 1984, when Zhang Aiping, Chinese Communist minister of national defense, visited France, he purchased from France 300 Super Puma helicopters. Data indicated that a helicopter of this type can carry 16 fully armed soldiers and fly 400 to 500km. They are fully capable of flying over the 130-km wide strait.

The source also said that the Chinese Communists have no aircraft carriers, but he pointed out that it takes only one 3,000-ton high-speed boat to carry these helicopters. There is a large number of Chinese Communist high-speed boats.

As early as 1974, Deng Xiaoping, who had made a comeback, summoned the commanders of 10 military regions for a meeting to plot a major attack on Taiwan in the following year by mobilizing 400,000 crack troops that had just been withdrawn from the Vietnam battlefield. Later, Zhou Enlai, with the depleted national coffers in mind, did not approve the plan to attack Taiwan. Not long after, with Deng Xiaoping again toppled in "the campaign to criticize Deng and combat rightist tendencies," this plan fell through.

In 1982, Deng Xiaoping again deployed heavy forces staging large-scale Taiwan attack exercises in northern Liaoning. The General Staff Headquarters transferred 10 infantry divisions, 2 marine corps, 7 parachute landing divisions, 6 mobile combat divisions, 3 bomber divisions, 5 transportation divisions, and a large number of civilian passenger and cargo planes from Beijing, Jinan, Nanjing, and other military regions to gather at important towns, airports, and seaports 70 to 150km (close to the width of the Taiwan Strait) away from the war zone north of Liaoning (six counties and cities and townships and towns under them, from Qinhuang Island and Hulu Island to Siping through Jinxi, Jinbei, Yixian, Xinmin and Shenyang, involving a length of about 300km and a width of 200km with an area close to that of the Taiwan Island). In the war zone were massed 12 infantry divisions, 6 air defense battalions, and 4 armored brigades, as well as 33 large and small warships defending the military ports of Qinhuang Island and Hulu Island.

The exercises lasted 80 hours. The attackers blasted the airports, highways, bridges, ammunition depots, embankments, power plants, and oil tanks belonging to the defenders. Before the defenders could summon their 30-odd reserve divisions, they lost their assembly area and ended up surrendering.

Deng Xiaoping Arranged for Taiwan Attack Exercises in Liaoning

In the past 5 years, the Chinese Communists have obtained many advanced scientific and technological military products from Western countries, given the economic policy of opening up. The many military exercises staged in the East China Sea and South China Sea have all been designed with an attack on Taiwan in mind. In their preparations for an attack on Taiwan, the Chinese Communists have made the following progress:

1. With the Kuomintang army's Sea Dragon and Sea Tiger submarines in mind, the naval bombers of Harbin have been equipped with U.S.-made torpedoes and avionics. Their performance is somewhere between the U.S. Phantom and the MiG-25. Three jet planes with side-looking radar have been further imported from the United States for air reconnaissance purposes.
2. To counter the anti-blockade action of the Taiwan navy, the Chinese Communists have manufactured large numbers of acoustic and magnetic mines and have also improved the design of remote-control mine-sweepers.
3. Improved J-8 fighters have been fitted with U.S.-made avionics and have been successively placed on the coast opposite Taiwan.
4. French-made Exocet missiles have been obtained from Pakistan and made into C801 submarine-to-ship missiles to be used as weapons in blockading the Strait.
5. NORINCO has manufactured imitation U.S. TOW missiles and produced in large quantities "Red Arrow-8" anti-tank missiles with infrared tracking, semi-active guidance, and a range of 100 to 3,000 meters. Among the imitation weapons manufactured are French Magic air-to-air missiles, Soviet BMP armored personnel carriers, U.S. M-16 rifles, U.S. Hornet RPVs, French Super Hornet heavy troop-carrying helicopters, and so on.

6. Q-5 fighters have been additionally fitted with British-made midair refuelling equipment. With fuel added from B-6 bombers, they can fly northeast or southwest of Taiwan in a formation like that of civilian planes. They then scatter to attack their respective targets. They have enough fuel to fly back to Fujian bases.

7. The Xian Aircraft Company has since the beginning of 1988 started producing auxiliary equipment for the B-7 and an improved version of the relevant engine. Submarines built in Wuhan and Hulu Island have been equipped with electronic equipment from the United States, Britain, and Italy.

8. L-8 trainers after U.S. models and Gazelle helicopters have been built to train more pilots.

9. The air-cushion landing craft built by the China Shipbuilding Corporation can carry two platoons of soldiers. Another batch of container ships and roll-on/roll-off ships can all be converted into military transport ships. The missile destroyers recently built by Shanghai and Wuhan all have French-made guns, British-made telecommunications equipment, and U.S.-made engines.

10. To strengthen landing combat capability, infantrymen have been equipped with new Israeli-designed tanks and Soviet-type APCs and automatic guns. In addition, the intermediate-range strategic missile unit has also successfully experimented with a solid-propellant missile.

11. A signing ceremony for new-type missile boat projects awarded by contract was held in Beijing on 23 December. Submarines, missile boats, and landmines are Communist China's effective weapons in preventing foreign merchant ships from sailing to Keelung, Kaohsiung, and Taichung.

At present, the Chinese Communists have an advantage with their 100-odd submarines, 40 destroyers, 200-plus missile boats, and 6,000 aircraft to Taiwan's 2 submarines, 30-odd old-type destroyers, 100-plus missile boats, and 500 aircraft.

CENTRAL-SOUTH REGION

Hainan Implements Policy Toward Cadres

*HK220210 Haikou Hainan Island Service in Mandarin
1100 GMT 19 Jan 88*

[Excerpts] Our region has basically completed implementing the policy toward cadres. According to statistics, from the 3d Plenary Session of the 11th CPC Central Committee to the end of 1987, our region conducted general investigations of 11,911 historical cases, concluding 11,428—or 99.2 percent—of them. A total of 4,300 people involved in such cases have been reassigned to new posts.

The deducted wages of the victims of false charges and misjudged cases during the Cultural Revolution totaled 8,207,200 yuan, which have been completely returned to such victims. The property and belongings that were illegally confiscated during the Cultural Revolution have been completely checked, and the rightful owners of such property and belongings have been paid compensation at the market price totaling 234,700 yuan.

Xu Shijie, Liang Xiang Discuss Hainan's Development

*HK171540 Beijing GUANGMING RIBAO in Chinese
1 Feb 88 p 1*

[Text] The work of building Hainan into a province has entered an intensive preparatory stage. It has been learned that a great deal of work has been done in the process of making preparations for the project of building Hainan into a province. Strategic aims and plans for Hainan's development have been worked out. Ideas and plans have been developed on economic and political structural reform, on attracting and training of talented personnel, and so on. At present, people throughout the country have placed high hopes on Hainan, and many countries and regions in the world have also shown great concern for the island. At this important moment, this reporter interviewed Xu Shijie and Liang Xiang, chief and deputy chief of the Preparatory Group for the Establishment of Hainan Province.

When they were interviewed by this reporter, Xu Shijie and Liang Xiang said: Judging from the practical conditions of Hainan, we should develop the 12-character spirit of "following a down-to-earth workstyle, exploring the way forward, blazing new trails, and struggling hard to make progress." This can be used as a norm for unifying people's ideals, will, and actions.

Xu Shijie and Liang Xiang stressed: Those who are determined to develop Hainan, whether they are leaders or masses, should, from beginning to end, implement the spirit of a down-to-earth style. Hainan is truly rich in natural resources. This provides a solid condition for Hainan's future development. However, present-day Hainan is poor and backward. The average income of its people is only 83 percent of the national average, and

one-sixth of its people live below the poverty line. There is a severe lack of talented personnel. There are only 0.35 intellectuals with a university or college education per 100 persons. Basic facilities are also extremely insufficient. Water and electricity supply, transportation, and telecommunications are poorly developed. Comrades who are working in Hainan and those who plan to work on the island should face reality. While considering questions, they should take the down-to-earth style as their starting point. It is an unrealistic illusion if they think that once they arrive in Hainan, they can pan out gold and that they can rapidly solve some problems that cannot be solved in the interior. They will surely be disappointed if they fail to dispel such unrealistic ideas. Xu Shijie and Liang Xiang hoped those who were determined to develop Hainan would be fully confident of Hainan's future. In the meantime, they should face the difficulties in reality. They should be mentally prepared for this.

Xu Shijie and Liang Xiang emphasized: The tasks assigned by the central authorities to Hainan are not limited to rapid economic development alone. In accordance with the theory of the initial stage of socialism, Hainan should take lead in conducting experiments in comprehensive political and economic structural reform and on blazing new trails within the scope of a province. This demands that people throughout the island follow the spirit of exploring the way forward, blazing new trails, and struggling hard. Exploring the way forward means declaring a war against the natural world to unearth buried wealth and to present the treasure of the precious island to our country and people. Exploring the way forward also means establishing a set of political and economic systems suitable for socialism with Chinese characteristics. To do so, we should learn from all good domestic and foreign experiences and discard all old and backward systems and habits of every description. Exploring the way forward and blazing new trails is a starting point for all builders of Hainan while carrying out their work.

Xu Shijie and Liang Xiang continued: Those who work in Hainan should have high aspirations of struggling hard to make progress. The Hainan people, who are shouldering a historical mission, will build Hainan into a prosperous, powerful, civilized, and precious island in not too long a time. As far as material civilization is concerned, the Hainan people should be in the lead in creating wealth. Hainan should be able to compete with some regions in Asia, in Southeast Asia in particular, which have some conditions similar to Hainan's. Hainan should resolve to surpass them. With regard to spiritual civilization, under the conditions of opening up to the outside world, Hainan should create experience in upholding the one center and two basic points. In the fields of science, technology, education, and culture, Hainan should have its own standing and characteristics. Protracted and strenuous efforts are needed in order to attain these goals. The people of Hainan should now start straightening out various relations, open up the way, and lay a good foundation.

In conclusion, Xu Shijie and Liang Xiang said: In the final analysis, the 12-character spirit is aimed at invigorating Hainan. With such a spirit, a good line, policies, and rules and regulations will display their power, and Hainan people will be able to unite with those who come from all parts of the country, and are determined to develop Hainan to strive for the attainment of their common goals.

Hubei Establishes New County-Level City
*HK290412 Wuhan Hubei Provincial Service in
Mandarin 1000 GMT 25 Jan 88*

With the approval of the State Council, Zaoyang County has been abolished and replaced by the newly-established Zaoyang City. Zaoyang City is a county-level city under the jurisdiction of the provincial government. Zaoyang County's administrative division has been turned into Zaoyang City's administrative division.

Guan Guangfu Relates Initial Stage to Hubei's Development

*HK190741 Wuhan HUBEI RIBAO in Chinese
25 Jan 88 pp 1, 2*

[Article by Guan Guangfu [7070 1639 1381]: "Apply the Viewpoints of the 13th Party Congress Documents To Understand and Guide Work in Hubei (originally published in HUBEI SHEHUI KEXUE [Hubei Social Sciences] No 1, 1988)"; boldface as published]

[Text]

I.

Adhering to Marxist dialectical materialism and historical materialism, proceeding from the objective reality of the current historical stage of China's society, and scientifically expounding the theory of the initial stage of socialism constitute a major contribution made by the 13th Party Congress ideologically, theoretically, and politically.

The world outlook, epistemology, and methodology of dialectical materialism and historical materialism constitute the scientific foundation of the whole of Marxist theory. It guides people to correctly understand and transform the world in light of the objective law and the true features of objective things. **Whether we have staunchly upheld Marxist dialectical materialism and historical materialism determines the success or failure, rise or fall, and gain or loss of the revolution and construction led by our party.** The great victory of the democratic revolution led by our party, the triumphant victory of the basic accomplishment of socialist transformation, and the historical experience and lessons drawn from the numerous setbacks we later suffered during the socialist construction period have proved this point.

During the late 1950s when China basically accomplished its socialist transformation, the principal contradiction to be resolved was the one between the people's increasing material and cultural needs and the backward socialist production rather than the question of class struggle. At that time, the focus of our party and state work had to be shifted onto the building of socialist modernization centered on economic construction and vigorously developing social productive forces. Owing to the influence of "leftist" mistakes, our party did not do so. Instead, we fostered the "leftist" mistake of subjectivism in the theory and practice of class struggle in a socialist society. During the "Great Cultural Revolution" we even opposed the so-called "theory of productive forces" which was an absurd practice running counter to historical materialism. In this regard, our party and people paid a huge cost during the 20 years from 1958 to 1973.

The 3d Plenary Session of the 11th CPC Central Committee was a turning point in the history of our party. The session established the party's ideological line of seeking truth from facts, enabling the party's guiding ideology to reembark on the scientific track of adhering to Marxist dialectical materialism and historical materialism. As a result, our party was able to resolutely correct the long-standing "leftist" mistakes, set things to rights, abolish "taking class struggle as the key link," and unswervingly shift the focus of the party's work onto the building of socialist modernization centered on economic construction. Through summing up historical experience since the founding of the PRC and the debate on the criterion of truth carried out during this period, our party energetically encouraged emancipation of minds and seeking truth from facts, upheld "practice is the sole criterion of truth" with a clear-cut stand, and universally conducted an education in Marxist dialectical materialism and historical materialism among the party and nation. Thanks to the historical change during the 3d Plenary Session of the 11th CPC Central Committee, our party was able to achieve a series of successes in setting things to rights, and in reform, opening up, economic construction, and spiritual civilization over the 9 years; and to take a leap forward in integrating Marxism with China's reality and finding a way to build socialism with Chinese characteristics.

In an important speech made in April 1985, Comrade Deng Xiaoping pointed out: **"China has taken a tortuous road in developing its socialism. The history of the past 20 years has taught us an important principle: In developing socialism we must follow Marxist dialectical materialism and historical materialism. Comrade Mao Zedong generalized it to seeking truth from facts or proceeding in everything from practice."** He also repeatedly mentioned on many occasions that "the fundamental task of socialism is to develop productive forces," "pauperism is not socialism," and "carry out the four modernizations with one heart and one soul." These viewpoints repeatedly stressed by Comrade Deng Xiaoping constituted the basic guiding ideology for the theory of the initial stage of socialism.

In compliance with the viewpoint and method of Marxist dialectical materialism and historical materialism, the 13th Party Congress put forward the theory of the initial stage of socialism and examined the objective reality of China's current social historical stage by focusing firmly on the development of productive forces—the heart of the matter. The congress examined the premise that China was a large semi-colonial and semi-feudal country with an extremely backward economy and culture, observed the tremendous achievements as well as setbacks in socialist construction over the past 30 years or so since the founding of new China, and analyzed the macroscopic state of international economic relations and the rank of China's per capita GNP in the world, and in comparison with the "developed capitalist countries."

Precisely based on the analysis of dialectical materialism and historical materialism, we reached the scientific thesis that "China is still in the initial stage of socialism." The premise, status quo, and macroscopic state of international economic relations of China's productive forces constitute the objective reality which is independent of man's will. They determine that arduous efforts should be made in our socialist construction based on the achievements attained and that we must undergo an initial stage covering a fairly long period to realize industrialization and commercialization, socialization, and modernization of production already achieved by other countries under capitalist conditions. As a social economic system, the stage of capitalism can be transcended. As a means of social economic operation of mankind, the historical course of commercialization and socialization of production cannot be transcended. For this reason, we can thoroughly break away from the historical idealistic viewpoint of discussing socialism in the abstract by deviating from the productive forces and draw a clear line of demarcation between scientific socialism and other utopian ideas.

An analysis based on dialectical materialism and historical materialism will also inevitably lead to the two-level meaning of the scientific thesis "China is still in the initial stage of socialism." First, China is already a socialist society. We must uphold and never deviate from socialism. Second, China's socialism is still at the initial stage. We must proceed from this reality and we cannot transcend this stage. The scientific exposition of the two-level meaning has exposed the mechanical approach to the development of revolution, the root of the "rightist" mistake which refused to recognize that the Chinese people could embark on the socialist road under China's specific historical conditions without undergoing the development of capitalism and also exposed the utopian approach to the development of revolution, the root of the "leftist" mistake which believed that the initial stage of socialism could be transcended without an enormous development of the productive forces. Thus, we used the powerful ideological weapon of dialectical materialism and historical materialism to prevent and avoid the two erroneous tendencies in both theory and practice.

During the 3d Plenary Session of the 11th CPC Central Committee 9 years ago, our party put forward and emphasized with a clear-cut stand, dialectical materialism regarding "practice is the sole criterion of truth," thereby guiding us to correctly solve the historical problem at that time, that is, practically affirming the great historic achievements of Comrade Mao Zedong and also pointing out the grave mistakes he made during his later years, resolutely smashing the trammels of the "two whatevers," and emancipating people's minds. Now the 13th Party Congress has particularly stressed the viewpoint of historical materialism regarding "the productive forces are ultimately the decisive factor in social development." The stress on "criterion of productive forces" will guide and help us solve another question encountered in the course of reform over the past 9 years, that is, the question of "capitalism" or "socialism" which perplexed many people at every step of reform. With the "criterion of productive forces," everything can be easily handled. The things advantageous to the development of productive forces conform to the fundamental interests of the people. Therefore, they are required by and permitted by socialism. Conversely, those things disadvantageous to the development of productive forces are against scientific socialism. Thus, they are not permitted by socialism. By resolving the question of "capitalism" or "socialism," we can remove the major ideological obstacles that hinder reform and opening up.

Dialectical materialism and historical materialism constitute an organic whole in which neither can be separated from the other. Dialectical materialism includes all the basic principles and viewpoints of Marxist philosophy. Historical materialism takes shape when all these basic principles and viewpoints are implemented in social historical spheres. **The "criterion of practice" is the basic principle of epistemology in dialectical materialism, while the "criterion of productive forces" is the basic principle of historical materialism and the further embodiment of the criterion of practice in the socio-historical sphere. The two criteria form a unity and are integrated at the two levels. Mastery of these two criteria is the "golden key" for correctly understanding and resolving the issue of the initial stage of socialism.** While studying the theory of the initial stage of socialism, we should study and understand the basic contents and scientific conclusion of the theory as well as comprehend and master the viewpoints and methods of dialectical materialism and historical materialism applied by the theory. Only by doing so can we improve our ideological and professional level, implement the spirit of the 13th Party Congress by studying the viewpoints and methods applied by it, and let the basic line and theory of the initial stage of socialism take root and blossom in Hubei.

II.

To implement the spirit of the 13th Party Congress by studying the viewpoints and methods applied by it, it is necessary to reunderstand Hubei's conditions with the guidance of the theory of the initial stage of socialism. By

doing so we can genuinely proceed from Hubei's objective reality, "implement the major policies and create a minor climate," creatively carry out the party's basic line, and effectively promote Hubei's reform and construction.

We should deepen our understanding of Hubei's conditions with the guidance of the scientific conclusion of the initial stage of socialism and its "two-level meaning." We should acquire a deep understanding of this meaning at the first as well as the second level. We should understand the generality of Hubei and the whole country and recognize the individuality of our province. Meanwhile, we should consider Hubei in the overall situation of the whole nation and in an environment related to the surrounding provinces, make a comprehensive observation and analysis with a systematic and developing viewpoint, and strive to make our reunderstanding of Hubei's conditions reach a new height approaching objective reality.

To understand Hubei's conditions by proceeding from the criterion of practice and criterion of productive forces, it is necessary to have a clear understanding of the situation of Hubei's productive forces.

Following the founding of new China, Hubei embarked on economic construction earlier than other provinces and was the focus of the state's investment prior to the Sixth 5-Year Plan. As a result, Hubei had relative economic strength and became one of China's important industrial and agricultural production bases. In 1985 Hubei's gross industrial and agricultural output value amounted to 67.56 billion yuan, a 305-fold increase over 1949, ranking seventh in the country (of this, the gross output value of agriculture ranked sixth and that of industry ranked eighth in the country). Moreover, the output of Hubei's major industrial and agricultural products ranked first in the country, with hydropower and trucks ranked first; iron, steel, and cotton ranked third; cotton yarn and cotton cloth ranked fourth; and grain ranked seventh. Hubei's economic development reached a new period of vigorous growth particularly after the 3d Plenary Session of the 11th CPC Central Committee. The gross industrial and agricultural output value in 1986 increased by 103 percent over 1980, quadrupling 4 years ahead of schedule.

However, the general level of the development of social productive forces is still relatively backward in Hubei.

First, the low economic level. In 1986 the per capita GNP was only 886 yuan, slightly higher than the national average. We had just solved the question of food and clothing and were halfway to reaching a comparatively well-off level.

Second, the low level of overall industrialization. In 1986 the GNP created by Hubei's industry accounted for only 42.5 percent of the primary, secondary, and tertiary industries, while agriculture accounted for 37 percent.

Social laborers in the industrial sphere accounted for only 21.9 percent of the primary, secondary, and tertiary industries, while those engaged in agriculture accounted for 60 percent. The task of economic industrialization was far from being accomplished in Hubei.

Third, the low level of modernization in industrial and agricultural production. Of the total population of 49.89 million, 39.08 million or 78 percent are in rural areas and they mainly rely on manual work to make a living. Meanwhile, Hubei's agriculture is seriously menaced by floods and drought, its capacity to combat disasters is still insufficient, and its agricultural foundation remains weak. In industry only a small number of enterprises are modernized, while the majority of enterprises are lagging several decades or even 100 years behind the modernization level. Technical transformation of old enterprises is still an arduous task.

Fourth, there is a noticeably uneven development of regional economy within the province. On the one hand, economy is relatively developed in the "great triangle" zone in central Hubei; and on the other hand, most of the areas in the northwest, southwest, northeast, and southwest mountain regions which account for 60 percent of the province's total area and one-third of the population are still poor and backward. The average per capita income there is under 300 yuan. Moreover, more than 4 million people there do not have enough to eat and wear. Most of these poor mountain areas were revolutionary bases. The people there fought bravely, shed blood, and made great contributions during the revolutionary war years. It is our economic task as well as political responsibility to help them free themselves from poverty as quickly as possible.

Let us look at Hubei's position in the competition for and strategic distribution of national economic construction. Although Hubei's economy is at the upper middle level and it is located in a place which connects the east and west and where the north and south converge, the economic strength of the advanced provinces and cities along the eastern coastal areas has been rapidly enhanced with the focus of the state's construction shifting eastward. The gap between ourselves and these areas has been widened. A number of provinces and autonomous regions in the central and western areas have also made use of their abundant resources and rear industries to catch up with the advanced. Under such circumstances, Hubei faces the following possibilities in economic development: Either do a good job and "rise abruptly from the center" or fail to do a good job and become a "valley at the center."

To sum up, although Hubei's economic construction has a sound foundation and there are favorable conditions in geography, communications, and natural resources, it is still an agricultural province based on manual work where the agricultural population forms the majority and the development of productive forces is relatively slow. We are now confronted with the question of transforming the old

base areas, encouraging them to develop intensive farming, and extricating the vast mountain areas from poverty and are facing the challenge of "rising abruptly from the center" or becoming a "valley at the center." Therefore, we should stay sober-minded, prepare for danger in times of peace, forge ahead, and work hard in economic construction. This is the first basic estimate of Hubei's conditions.

To understand Hubei's conditions by proceeding from the criterion of practice and criterion of productive forces, the second important thing is to have a clear understanding of the situation of Hubei's reform, particularly that regarding the development of a planned commodity economy. To develop productive forces, it is necessary to carry out all-round reform and release the restrained productive forces. Otherwise, there will be no way out. The theme of reform is to develop a planned commodity economy. Therefore, while making an analysis of the reform situation, it is necessary to critically analyze the situation regarding the development of a planned commodity economy. As early as in the feudal society, Hubei was known as a land of fish and rice where small-scale commodity economy developed. Hubei also had access to nine provinces. Following the Opium War, Hankou and Shashi were two of the "five trading ports opened to foreign trade." With the development of bureaucrat, comprador capitalist economy and national capitalist economy, Hubei was influenced by modern commodity economy. After liberation Hubei rapidly became one of China's important industrial and agricultural production bases which further promoted the development of a modern commodity economy. We can say that there are favorable historical conditions for Hubei to develop a commodity economy. By making a further analysis, however, we should also take note of the historical conditions unfavorable to commodity economic development.

First, Hubei's commodity economy was weak and developed on a small scale before liberation. What we want to develop today is a planned commodity economy and a modern socialized commodity economy. However, small-scale commodity economy is established on the basis of sufficient and semi-sufficient small-scale production. Although it can play a role in promoting the development of a commodity economy to a certain extent, it is incompatible with a modern, socialized commodity economy. It has the characteristics of a low commodity rate, narrow market, shortsightedness in operation, ignoring the larger issues, seeking minor benefits, and the habitual practice of trade association and localism. In the 9 years following the 3d Plenary Session of the 11th CPC Central Committee, Hubei did indeed take a step ahead in developing a commodity economy. However, we should also be aware that small-scale commodity economy still occupies a large proportion in our current commodity economy. Its backward force of habit which is disadvantageous to the development of a commodity economy has been manifested in many fields. Besides the individual and private economic

sectors, it has also been manifested in the collective and public economic sectors. At present we should make use of and give full play to the positive role of the small-scale commodity economy and also take note of eliminating the influence of its backward force of habit, and use the concept of a socialized commodity economy to guide our reform. In this way we can smoothly and healthily develop a planned commodity economy.

Second, although Hubei's economy developed remarkably after liberation, commodity economy was set against socialism in both theory and practice owing to the "leftist" mistakes and dogmatic understanding of Marxism. As a result, the progress of commercialization and socialization of production was hindered and a rigid product economic pattern took shape. Moreover, there was a large proportion of large and medium-sized enterprises, the public economic sector, and heavy industry in Hubei's economic makeup, with a smaller proportion of small enterprises, the collective economic sector, and light industry. The proportion of unified purchases and distribution and of mandatory planning in economic life was also large. Many major products which were of vital importance to the country were manufactured according to the state's mandatory plans for several decades. Consequently, we were used to the ideological concept and work method of a product economy. This was also a force of habit hindering the development of a planned commodity economy. We should have a clear understanding of this point and consciously overcome this force of habit. In this way we can mitigate the contradictions and frictions in substituting a new system for the old one and smoothly solve the problems.

To sum up, although Hubei was long ago influenced by a commodity economy and had a solid production basis for developing a commodity economy, the force of habit of small-scale commodity economy and product economy prevailed owing to historical reasons which hindered the development of a planned commodity economy. For this reason, we should in our economic work consciously make strenuous efforts to eliminate the influence of the force of habit, increase our sense of modern, socialized commodity economy, forge ahead and blaze new trails, and bring about the smooth substitution of a new system for the old one.

To understand Hubei's conditions by proceeding from the criterion of practice and of productive forces, it is also necessary to make a further analysis of the characteristics to be noted in the building of spiritual civilization in Hubei. On the basis of recognizing the decisive role of productive forces and that social being determines social consciousness, dialectical materialism and historical materialism also recognize and attach great importance to the reaction of production relations and the superstructure.

In the building of spiritual civilization, Hubei has a special feature and strong point, that is, the people in Hubei have a long, glorious revolutionary tradition of

bearing extreme hardships and difficulties. This is Hubei's most valuable spiritual wealth. In the course of the new democratic revolution led by our party and from party building, the great revolution, the agrarian revolution, and the anti-Japanese war to the war of liberation, Hubei was one of the important areas of revolutionary struggles. The tide of revolution extended all over the province. The struggles went on and the red flag fluttered. More than 700,000 revolutionary heroes sacrificed their lives and 26 leaders of the Hubei CPC committee were murdered by the enemy. They advanced wave upon wave, shedding blood on the land of Hubei covering a total area of 180,000 square km. The older generation of revolutionaries' revolutionary sacrificial spirit of saving the country and revitalizing the Chinese nation should take root among the people of the whole province, sprout, blossom, and bear fruit and further develop in the course of reform and construction. Reform means revolution and construction means struggle. Without the revolutionary dedicating spirit and without the high aspirations of building the country through arduous efforts, it would be impossible to achieve the victories of reform and construction. In the past we attached importance to Hubei's glorious tradition. However, we did not have a profound understanding of the great significance and role of this extremely valuable spiritual wealth and did not make the most of this strong point in the building of spiritual civilization in Hubei. Hence, we should moisten the four modernizations with this valuable spiritual wealth.

Moreover, the backward aspects in social thinking in Hubei merit attention. We should be aware of this point.

First, feudal ideas and the force of habit of small-scale production are still prevalent and are chronic in certain fields. This is closely related to the objective reality of Hubei's backward economy and culture and underdeveloped commodity economy. Conservative and ignorant ideas, bad customs and habits, complacency over occasional success, and narrow and limited views can manifest themselves in various forms at any time and place. We should avoid all this in our work in the future. Otherwise, they will hinder the progress of our modernization program. While carrying out the building of spiritual civilization, it is necessary to resolutely resist the decadent ideas of feudalism and capitalism. Viewed from Hubei's reality, while resisting capitalist decadent ideas at present and for a period in the future, it is necessary to eliminate the influence of feudal ideas and the force of habit of small-scale production.

Second, there is still some influence of "leftist" rigid thinking. Although this is a general question in the country, it should not be underestimated in Hubei. As mentioned previously, the influence of the force of habit of a product economy is notably present in Hubei owing to historical reasons. This state of affairs should not be underestimated. Moreover, there is another tendency that merits attention. Under the influence of the rigid system, if we cannot make an analysis of the remarkable

achievements attained in economic construction with the concerted efforts of the people of the whole province and widen our field of vision, we may be complacent about these achievements and thus encourage this rigid tendency.

To sum up, the glorious tradition of the people in Hubei is our strong point in building spiritual civilization. Meanwhile, there is also the influence of feudal ideas, the force of habit of small-scale production, and rigid thinking. For this reason, we should give full play to the strong points and remove the two major obstacles so that the building of spiritual civilization in Hubei, focused on one center and two basic points, will vigorously develop and prosper.

III.

The purpose of applying the viewpoints and methods of the 13th Party Congress to deepen our reunderstanding of Hubei's conditions is to proceed from Hubei's reality and implement the spirit of the 13th Party Congress, enthusiastically carry out reform, develop construction with full confidence, do work in a down-to-earth manner, make strenuous efforts to establish a new economic system, and attain a comparatively well-off level—the strategic target of the second step of economic development—ahead of schedule.

First, it is necessary to conduct thoroughgoing education in the party's basic line in the initial stage of socialism and mobilize the people of the whole province to enthusiastically carry out reform.

The main topic of the 13th Party Congress was to accelerate and deepen reform. However, reform cannot be plain sailing. As reform has involved various fields of the economic basis and the superstructure, the substitution of a new system for the old one will inevitably give rise to frictions and repercussions. The problems emerging from the readjustment of interests of various fields, a lack of spacious environment for economic operation, the temporary fluctuations in economic life, and the capacity and obstruction in people's ideological understanding have enormously increased the difficulties of reform. From the angle of the protracted and complex nature and arduousness of the historical tasks of the initial stage of socialism as a whole, we should further understand the protracted and complex nature and arduousness of reform, advance amid difficulties, be firm and indomitable and fear no setbacks, take the overall situation into account and be ready to suffer personal losses, and be confident in winning victories, fear no pain, and enthusiastically carry out reform.

The most important task at the moment is to conduct thoroughgoing education in the basic line so that "adherence to the two basic points focused on economic construction" will take root in the hearts of the people. To uphold the "criterion of productive forces," it is necessary to solve the following problems:

First, smash the trammels of rigid thinking and remove the ideological obstruction of the so-called "capitalism" or "socialism" which has hindered the progress of reform. Naturally, it is also necessary to prevent and overcome liberalization and strive to create throughout the province the social environment, cultural conditions, ideological concepts, public opinion, and theoretical guidance favorable to reform, opening up, and the development of a commodity economy.

Second, in accordance with the overall plan and guiding ideology of the 13th Party Congress on accelerating and deepening reform and on the basis of conscientious review of the achievements and experience of the previous stage, it is necessary to thrash out the train of thought in the reform of various fields, mitigate the contradictions in reform focused on invigorating enterprise managerial mechanism, create a fine environment and provide favorable conditions for the reform of various fields, and push forward the entire reform.

Third, with the premise of arousing the enthusiasm of the producers, it is necessary to prudently and meticulously work out policies for rationally readjusting the interests of various fields. Meanwhile, it is necessary to extensively carry out social discussion, enhance mutual understanding of reality, and deepen ideological understanding so that everyone will consciously subject his personal interests to the fundamental, long-term, overall interests of the state and "take the four modernizations as his own responsibility and share a common fate with reform."

Second, confronted with the challenge of "rising abruptly from the center" or becoming "a valley at the center" in Hubei's economic construction, we should earnestly solve the major questions concerning Hubei's economic development strategy, mobilize the people of the whole province to carry out construction with full confidence, and strive to "rise abruptly from the center." To carry out economic construction, it is necessary to continuously expand reproduction. To expand reproduction, we must have accumulation. The most important way to increase accumulation is to attain better economic results. Poor economic results are precisely the "focus of contradiction" in Hubei's overall economic work. Focused on attaining better economic results, we should seek unity of efficiency, growth, and staying power and increase the capacity of self-accumulation, self-transformation, and self-development. The tendency to concentrate on growth, irrespective of economic efficiency, will only cause waste. Unless we attain better economic results, it will be impossible to accumulate funds, increase our staying power, and ensure steady economic growth. Naturally, economic results cannot be good without a reasonable growth. Viewed from Hubei's conditions, it is particularly necessary to stress attaining better economic results and increasing accumulation through self-reliance because state investment in Hubei will gradually decrease as the focus of state investment shifts eastward.

Certainly, we should make the most of Hubei's advantages, improve the investment environment, and strive to get more investment. At present, however, there should be a limit to the efforts made in this regard. We should be determined to rely on ourselves. Otherwise, we will lose opportunities and hinder Hubei's economic development.

In fact, as an old industrial and agricultural production base, Hubei has latent potential to carry out structural reform, technical transformation, and reorganization.

Structural reform refers to further releasing the restrained productive forces through reforming the superstructure and production relations. This has been mentioned previously.

Technical transformation refers to transforming traditional industry (including industry and agriculture) with advanced technology. An important question to be solved in the national economic development strategy is putting the development of science, technology, and education in the first place so that economic construction will be brought into the orbit of relying on scientific and technological progress and improving the quality of laborers. To implement this strategic guideline, Hubei should proceed from the reality of an old industrial and agricultural production base, focus its attention on the basic work of transforming the traditional industry with advance technology, rely on science and technology, and fully tap the potentials lying hidden in industrial and agricultural production.

Reorganization refers to readjusting and improving the industrial setup, establishing lateral ties between enterprises, and developing enterprise groups. Through such reorganization we should rationally distribute the essential production factors, develop socialized, specialized production and cooperation, make the most of the advantages, make up the deficiencies through coordination, and increase the utilization of natural resources and efficiency of funds. Whether the industrial setup and enterprise organizations can be gradually rationalized will determine to a large extent economic development and better efficiency in the future. In recent years Hubei has strengthened the foundation of agriculture, given full play to the role of heavy industry, developed light and textile industries focused on improving quality, and developed agriculture, heavy industry, and light industry in an all-round way. On the premise of making the most of grain and cotton, we developed diversified economies and township industry and pushed rural economy forward. By giving full play to the role of large and medium enterprises, the public economic sector, and heavy industry, we improved the conditions of small enterprises, collective economic sector, and light industry and implemented the policy of walking on two legs. We carried out the policy of encouraging the best and supporting the poor in regional distribution and

achieved initial results in promoting steady and coordinated economic development and attaining better economic results. We should continue to try in the years to come to further rationalize the structure of industry and enterprise organizations.

To effectively promote Hubei's reform and construction, the people, party members, and cadres of the whole province who have a glorious revolutionary tradition should carry forward the spirit of self-reliance and building the country through arduous efforts and work at their own posts in a down-to-earth manner.

The initial stage of China's socialism is a stage in which we will gradually extricate ourselves from poverty and backwardness. It is a stage in which an agricultural country based on manual work with the majority of the population engaged in agriculture, will gradually become a modern, industrial country with the non-agricultural population accounting for the majority. It is a stage in which natural economy and semi-natural economy accounting for a large proportion will change to becoming a highly developed commodity economy. It is a stage in which socialist economic, political, and cultural systems will be established and will develop through reform and explorations. It is a stage in which the people will make arduous efforts to build the country and revitalize the Chinese nation. This stage will last for at least a century starting from the completion of socialist transformation in the 1950s. This is the objective basis for the party to regard "self-reliance and building the country through arduous efforts" as the important contents of its basic line in the initial stage of socialism. We have only taken the first step in realizing the above strategic target. It is required by history, the times, and the fundamental interests of the people and the state that we continue to carry forward the spirit of "self-reliance and building the country through arduous efforts." Regarding the unhealthy tendency of going in for ostentation and extravagance and seeking excessive consumption in Hubei, we should profoundly conduct education and change the people's ideological concepts.

Meanwhile, we should conscientiously carry out the policy of strictly administering factories, the government, and the party. The ideological style of self-reliance, building the country through arduous efforts, and working in a down-to-earth manner should be promoted in practical work in all fields centered on economic construction. Above all, it is necessary to strictly administer the party, strengthen party building through reform, enable all party members to stand the tests of a ruling party, reform, and opening up, and increase the fighting capacity of the party organizations at all levels. Only by doing so can we strictly administer factories and the government, ensure the smooth progress of reform and construction with solid work, and guarantee the implementation of the party's basic line.

SOUTHWEST REGION

GUIZHOU RIBAO Editorial Hails Close of People's Congress

HK300305 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 29 Jan 88

[Report on 30 January GUIZHOU RIBAO Editorial: "Clear the Way To Advance Amid Reform"]

[Excerpts] The first session of the seventh provincial people's congress victoriously concluded yesterday after completing its entire agenda.

The editorial points out that accelerating and deepening reform was the main topic of this session. Attending deputies cited volumes of facts to show that it is the reforms that have been the main source of Guizhou's achievements in the past 5 years, and that the main problem in work during this period is that the pace of reform has not been rapid enough.

The key to fulfilling the tasks for the next 5 years lies in accelerating and deepening the reforms. To do this, we must continue to do away with ossified thinking, the small peasant economy mentality and traditional concepts, further emancipate our minds, and relax policies. The sole criterion for emancipating the mind and relaxing policies is the productive forces criterion proposed by the 13th Party Congress. We must actively explore, boldly experiment with, and enthusiastically support all methods and measures that accord with Guizhou's realities and help to develop its productive forces, exploit its resources, and invigorate and enrich its people.

The editorial says that further enhancing our understanding of the province's conditions is the basic premise for accelerating economic and social development. It is also the fundamental basis for us in proceeding from Guizhou's realities in deepening reform and preparing the way to advance. By understanding the province's conditions, we will always keep in mind Guizhou's special features such as its advanced material and technological foundation, its rich natural resources, and its poverty and backwardness. These things are naturally an important aspect of the province's conditions. But understanding them is not enough—we should study how to make the greatest use of our existing material and technological foundation, exploit our rich natural resources, and change the province's poverty and backwardness.

There are also old ideological concepts and old systems that are binding us hand and foot and hindering our advance. We should say that this too is an important aspect of the province's conditions.

The editorial states in conclusion that the people of all nationalities hope to invigorate Guizhou. Let us unite still more closely and concentrate our attention on studying how to promote the reforms and how to further

emancipate our minds and relax policies. We should contribute ideas and schemes for invigorating the province, work hard to build an enterprise, continually push ahead with the province's reforms and construction, and gradually achieve sustained progress in invigorating the province and enriching its people.

Xizang Leader Discusses Leftism, Separatism
HK040132 Lhasa Xizang Regional Service in Mandarin
1130 GMT 30 Jan 88

[Excerpts] According to XIZANG RIBAO, Raidi, deputy secretary of the regional party committee, delivered a speech at a 29 January regional study class organized for cadres engaged in nationalities and religious affairs at the prefectural, city, and county levels. Comrade Raidi stressed: We must firmly arrange other work around the party's central task; conscientiously study and implement the spirit of the 13th Party Congress as well as the spirit of the recently held enlarged meeting of the regional party standing committee; study theories regarding nationalities and religious affairs; uphold the guiding principle for continuing to eliminate leftism, paying attention to guarding against rightism, actively giving guidance, and strengthening management; and bring every positive factor into play with the purpose of safeguarding the motherland's unification and the political situation of stability and unity.

Comrade Raidi added: Since the 3d Plenary Session of the 11th CPC Central Committee and particularly over the past few years, the regional party committee has attached major importance to implementing the party's policies on united front work, nationalities, and religion; put forward the guiding principle for continuing to eliminate leftism, paying attention to guarding against rightism, actively giving guidance, and strengthening management; and scored some achievements in implementing all policies. The vast numbers of (people) have expressed satisfaction with our work. However, the leftist ideological influence is still the major (problem) in our united front, nationalities, and religious work. If there ever again is a chance, the leftist ideological influence will (make trouble again). During the previous period, leftist feeling ran high, and some people were skeptical about and even negated the party's general and specific policies on united front work and nationalities and religious affairs. Therefore, we must not neglect to take precautions against leftist influences; we must keep a clear and cool head. We must regard thorough elimination of the leftist ideological influences and complete negation of the Cultural Revolution as important links in promoting our united front work as well as our nationalities and religious affairs work. We must persist in grasping the links through to the end.

Deputy Secretary Raidi demanded that our region's cadres engaged in united front work and nationalities and religious affairs conscientiously study the theory of the initial stage of socialism as put forward at the 13th Party Congress, achieve a deeper understanding of

Tibet's specific characteristics, and deepen their understanding of the importance of promoting united front work and nationalities and religious affairs.

Deputy Secretary Raidi added: We must achieve unity in thinking about the relevant spirit of the party central committee and regional party committee. We must conscientiously study theories concerning united front work and nationalities and religious affairs, study and have a good grasp of the basic characteristics of our united front work and nationalities and religions affairs under the new situation, and use theories to guide real actions. We must study the history of Tibet as well as the party's policies on nationalities and religions, and enhance our understanding of the relevant theories and policies.

Deputy Secretary Raidi said: Our party once made many mistakes in the guiding ideology and we implemented leftist lines in our work, thus creating many losses in the work concerning Tibet. In particular, many Buddhist temples and monasteries were once sabotaged, and quite a few patriotic personages and many people were once treated, criticized, and denounced as monsters, demons, and forces of evil at public meetings. This caused and created many miscarriages of justice, trumped-up cases, and unjust verdicts, creating wounds in the hearts of the people and providing opportunities that can be exploited to the advantage of a small number of separatists.

However, the problems in our work and the separatist activities carried out by separatists are two issues completely different in nature. Regarding leftist influence and sabotage, we must conscientiously sum up experiences and lessons in this regard. Only by so doing can we say that we hold ourselves responsible to the party and the people of Xizang.

NORTH REGION

RENMIN RIBAO Reports Shandong Supervision by Media

HK300340 Beijing RENMIN RIBAO in Chinese
28 Jan 88 p 5

[Letter by Shandong Provincial News and Publications Bureau: "Shandong Provincial CPC Committee Supports News Units in Conducting Criticisms"]

[Text] Since 1985, the Shandong Provincial CPC Committee has taken the investigation and handling of criticism and reports made in the press as one of its routine tasks. A special organization has been set up and officials have been appointed to take charge of the work. They take note of any criticism of and reports on Shandong published by the press and other restricted publications and deliver them to the departments concerned for investigation and handling. A total of 84 cases have been handled since last year. Thus criticism has resulted in a positive response.

To advance reform and opening up, and to promote economic development in Shandong, the provincial party committee has made great efforts to ensure that the public is aware of major events. The committee is involved in the open discussion of any major issue, and the press, radio services, and television stations will be used efficiently to launch criticism on issues of public concern, with the focus placed on the reform, the opening up policy, policy implementation, and cadre workstyle. Due to dereliction of duty by the competent department in Cangshan County, there was a glut of garlic and ginger on the market in 1987. This aroused grievances among the masses. The provincial party committee has used the Cangshan County "Garlic and Ginger Incident" to launch a criticism and discussion campaign through the press, radio, and television to educate the province's cadres and people and to guide them in discovering a way for leading organs and leading cadres to improve their thinking and workstyle under the new circumstances.

The provincial party committee has also helped the press to overcome difficulties and remove obstacles and has provided assistance so that they can boldly launch criticism.

NORTHEAST REGION

Liaoning Voters Unseat Incumbents
OW082136 Beijing XINHUA in English
1445 GMT 8 Feb 88

[Text] Shenyang, February 8 (XINHUA)—Political reforms in northeast China's Liaoning Province are giving the electorate much greater power in deciding who should hold office in the province's constituencies.

And the message candidates are getting is loud and clear: either perform or you'll lose out.

Losing out is what happened to Xu Dengqi who had led his township for 30 years until the elections late last year.

The same happened to 291 county and township leaders who failed to get reelected because the voters felt they were incompetent or did nothing during their terms of office.

"This shows election in China is no longer a nominal democracy but an important criterion for the promotion and demotion of government officials," said Liu Xin, an official from the provincial commission for Legislative Affairs.

To most local voters, the criterion for competency is how well an official can lead people on the road to prosperity, not on how well he manages to avoid offending anyone.

A township head in the Sujiatun District worked diligently and conscientiously for many years. He used to travel 50 km on his bicycle to attend meetings to save the state money.

But he failed to help the people out of their poverty and so lost the election last year.

The electorate is pressing its rights to have a greater say in the election process.

No longer can the party committee simply nominate a list of candidates and expect them to win office. That is a violation of the election law.

When Zhang Chunlin of Dandong City complained that government officials were agitating local voters to elect candidates nominated by the party committee, an investigating committee agreed and annulled the vote, forcing a reelection.

"Elections which fully respect voters' opinions is real democracy," Zhang said later.

LIAOWANG Views Upcoming KMT Party Congress

40050086 Hong Kong *LIAOWANG* [OUTLOOK] in Chinese No 1, 4 Jan 88 pp 29-30

[Article by Fan Liqing [5400 7787 7230]: "KMT Faces An Uncertain Future in Post-Chiang Ching-kuo Era"]

[Text] Presiding over a meeting of the standing committee of the KMT Central Committee in late November 1987, Chiang Ching-kuo announced that the party would convene its 13th party congress in 1988, putting to rest a debate that had been raging inside the KMT for as long as half a year over the calling of a party congress.

Conservative Attempts To Stall Congress

As early as the beginning of 1987, there had been continuous reports about calling a 4th plenum of the 12th KMT Central Committee in the second half of the year. But the plenum was postponed time and again and was finally cancelled. Meanwhile, a struggle was under way between the party's conservative and reform factions over whether to call a 4th plenum or to convene the 13th party congress directly. The reform faction hoped that the convening of the 13th congress would help further political reform. But others in the party were willing to call a fourth plenum only as a means to prevent the party reformers from going too fast. But the real reason why the conservative faction opposed the convening of the 13th congress was that it would necessitate the holding of full elections to the Central Committee, leading to a transfer of power and hastening the veterans' exit from the political stage. Naturally, the conservatives decided not to "give up" power lightly. Therefore, they not only vehemently opposed calling for the 13th party congress at high-level party meetings, but also maneuvered secretly to delay the congress. So far there has been no trace at all of the four-point reform plan. Veterans on the Legislative Yuan and other central parliamentary institutions suddenly all "pledged allegiance" and refused to give up the heavy responsibility of "saving the party and country." Li Huan [2621 3562], considered a reform dark horse, was deliberately suppressed. The conservative faction argued that an increasingly conservative political climate on the island did not make for a favorable time for convening the 13th congress. But while the conservative forces may create a political atmosphere, they cannot arrest the rapid change in Taiwan society.

Over the past year, change has indeed been rife in Taiwan society. A flurry of new parties and groups have sprung up. Self-help activities take place all the time. At all social levels, the forces for self-determination are on the rise. Opposition forces, headed by the Democratic Progressive Party [DPP], in particular, have stiffened their resistance sharply, posing a formidable challenge to the power and position of the KMT not only on the streets, but also within parliamentary institutions like the Legislative Yuan. Thus even Chiang Ching-kuo was

driven to condemn angrily at a standing committee meeting. "Clearly some individuals with an axe to grind have been vilifying the party and distorting its image, even trying to overthrow it."

Four Major Predicaments Facing the KMT

The KMT faces challenges from three quarters. First, a political opposition based on Taiwan's middle class. Its goal is to redistribute political resources and seize power. To achieve its goals, it resorts to such slogans as "independence" and "self-determination" in order to create ideological confusion in society. Second, the younger generation within the KMT, who, distressed at the conservative tendencies of the older generation and the incompetence of KMT rule, has been intensifying its demand for participation in decision-making, government, and succession. Third, the Chinese Communists' "one nation, two systems" proposition and its Taiwan policy have clearly put the Taiwan government "on the spot." The pressures for peaceful re-unification are mounting. These three major challenges put the KMT in four predicaments: 1) Rising clamor for political democratization. The call for "national-parliamentary elections" directly threatens the KMT's reunification designs; 2) the coming out into the open of the debate between "reunification" and "independence." The clash between the "reunification" school of thought and separatist "independence" sentiments is one of the philosophical sources of the endless turmoil in Taiwan politics; 3) the succession issue is still up in the air. Chiang Ching-kuo is now confined to a wheelchair. Central and local parliamentary elections as well as the elections of county, municipal, and village chiefs due to be held in 2 years are now drawing closer and closer. How to win those elections and deal with possible sudden changes in the situation have become an immediate, not remote, concern; and 4) the shrinking room on the international stage for Taiwan to maneuver. Taiwan's diplomatic straits not only has become a pretext for the Taiwan "independence" movement, undermining Taiwan's image so painstakingly cultivated by the KMT among overseas Chinese, but is also bound to affect Taiwan's political situation and economic development.

KMT Constitutionally Sick

After exercising centralized dictatorship in Taiwan for 40 years, the KMT today has unavoidably gotten out of sync with social development organizationally and structurally. The leadership has aged. Policies have become conservative. Party aspirations are seriously out of step with public opinion. The KMT's problems stem from the succession crisis, which means not only that Chiang Ching-kuo has no successor, but also that the entire KMT organization and the transfer of power have not been institutionalized. Even today the party lacks an overall plan. When old people refuse to step down, young people cannot come to the fore. Promotions are based on the need to balance the various factions, not on performance or public opinion. Old people are everywhere.

The political style is conservative and the party lacks the will to innovate. In time, the inevitable outcome will be instability induced by backwardness. In Taiwan today, Chiang Ching-kuo has the final say on everything, big and small. But he is getting weaker and weaker and no progress has been made at all in selecting his successor after he passes away. Chiang Ching-kuo has put forward a solution to the succession problem, namely, "collective leadership, division of governance." But difficulties abound at the moment.

Because no congress has been convened for more than 6 years, the average age of the 150 members elected 6 years ago to the Central Committee, the KMT's power echelon, is currently over 68. Of these, almost half have left the original positions. Similarly, the average age of the members of the standing committee of the KMT Central Committee, the central decision-making body, exceeds 69. Despite a reorganization as recent as March 1986, the standing committee has grown too large, with more people joining than leaving it. Chiang Ching-kuo has promoted a few relatively young Taiwanese into the standing committee, but it is still dominated by elderly, respected party veterans. As mere "probationers," the younger members are often reduced to serving a decorative role. The elderly members listen to Chiang Ching-kuo alone. "They keep quiet on issues that do not concern them and plead ignorance on most matters." Consequently the standing committee has lost its policy-making capacity totally. In Taiwan today, policy-making is slow. Governments at all levels are inefficient. There are unpredictable changes in policy and officials procrastinate without coming to a decision. All this has bred public alienation and distrust.

How to Convene the 13th Party Congress

Power transfer and the reorganization of the power structure is a major problem facing the KMT because it obviously involves the redistribution of political power and a string of other interests inside the party. Already it has prompted a power struggle between various factions and forces within the KMT. Under these circumstances, how is the KMT going to hold its 13th congress?

It should be realized that the KMT cannot run away from the burning issue of revamping its power structure, no matter what. The succession issue demands immediate attention, what with the parliamentary elections at all levels and grassroots county and municipal elections coming up in 2 years as well as the presidential election that must be held after Chiang Ching-kuo serves out his term.

Right now Chiang Ching-kuo finds himself under all sorts of pressure. Yet the political situation is such that the much-delayed 13th congress cannot be put off indefinitely. Thus Chiang Ching-kuo said the word, "The 13th congress will be held in 1988." When in 1988? The exact time has not been determined. Some people in Taiwan are now predicting that the congress will take place in

May 1988 since preparations take half a year. Others say it will be the second half of 1988. Actually it is not important when the congress is held. What is important is how the KMT proposes to solve the problem after facing it. That depends on what Chiang Ching-kuo intends to do.

Chiang Ching-kuo has set the tone for the 13th congress: "anti-communism," "anti-Taiwan independence," and upholding the "three-no's" policy toward the mainland. How then is the KMT going to resolve the conflict between "reunification" and "Taiwan independence," while maintaining the status quo in Taiwan? Does Mr Chiang Ching-kuo still want Taiwan's future to remain in a state of uncertainty, drifting into the unknown even as the struggle between the democratic movement and Taiwan independence, between "reunification" and "separation," continues?

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President Li Teng-hui Reported Respected by Political Opposition

40050103c Taipei TZULI WANPAO in Chinese
17 Jan 88 p 2

[Article by Wei Yichun [7614 6318 0689] and Hu Hsinglai [5170 2502 0171]: "An Approachable Leader"]

[Excerpts] Compared to the three former presidents—Chiang Chung-cheng, Yen Chia-kan [0917 1367 3227], and Chiang Ching-kuo—Mr Li Teng-hui's [2621 4098 6540] role is clearly not that of a strongman. Instead, he has chalked up administrative credentials by working his way up as civil official. His life history almost parallels that of the growth of Taiwan. Judging from the emergence of a collective leadership in the decision-making system, Mr Li Teng-hui's role has become the focus of interest at home and abroad.

On 5 November 1987, Mr Chiang Ching-kuo, despite his illness, personally presented Mr Li Teng-hui with a Medal of Merit Class 1 and praised his wisdom, loyalty and outstanding abilities. The award of the highest civilian honor to Mr Li Teng-hui was seen as a solid sign that he would succeed Mr. Chiang Ching-kuo.

The late president had high praise for Mr Li Teng-hui's report on provincial government work at a meeting of the standing committee of the KMT Central Committee on the eve of the nomination of the seventh president and vice president in Year 73 of the Republic of China. At the time, sensitive political figures already asserted categorically that President Chiang Ching-kuo had a vice presidential candidate in mind.

The Miaosucholan Agricultural Association was once embroiled endlessly in a factional dispute. As provincial chairman, Mr Li stepped in to mediate. His subordinates tried to dissuade him, saying, "As chairman, you are way up there. Why bother to enter the fray?" Mr Li Teng-hui

replied, "Elder son, younger son, they are all sons. The more difficult a child is, the more I should show concern." With this mentality, he successfully resolved the factional dispute.

Once Mr Chiang Ching-kuo visited some farming families with a handful of attendants. He was puzzled by one thing and, upon his return, asked Mr Li Teng-hui, "Why is vegetable soup such a popular dish in Taiwan?" Mr Li Teng-hui, who has a doctorate in agricultural economics and worked in the field bare-footed as a child, said, "Taiwan's farming families are very poor. There are many mouths to feed. The only thing they can do is to cook vegetables with a little water so that everybody in the family can get to drink some soup, if not eat the vegetables."

Mr Li Teng-hui left for the United States to pursue doctoral studies at the ripe old age of 45. But few people know that he failed three times to gain admission to a middle school.

After graduating from the Sanchih National Elementary School, he was full of confidence and applied for admission to the Taipei Teachers Training College. To his surprise, he was rejected. Then he tried Chengkung Middle School only to be turned down again. He vowed to study hard and repeat the examination next year, little knowing that he would fail it one more time. In the end he had no choice but to apply to Tanshui Middle School, enrolling in the middle of the course.

Today, both the mission entrusted to this former unsuccessful candidate by our times and the brand new political situation he will soon face are probably unprecedented.

Judging from his effectiveness as a mediator of political disputes inside and outside the government, there is no doubt he is a head of state acceptable to and respected by the opposition.

When he was mayor of Hsinchu, Shih Hsing-chung [2457 1840 1812], now a major opposition figure, once brought the relations between the government and assembly to an impasse because of his tough attitude. Mr Li Teng-hui, then provincial chairman, went to Hsinchu and held talks with Shih Hsing-chung in person during which he offered the mayor this Japanese saying, "The wind blows and the willow sways, but it does not break." Mr Li Teng-hui's attitude, neither annoyed nor angry, was suitably earnest. It went down well with Shih Hsing-chung.

Mr Li Teng-hui also has a personal friendship with Yao Chia-wen [1202 1367 2429], chairman of the Democratic Progressive Party, and his wife, Chou Ching-yu [0719 3237 3768]. All three people are devout Presbyterians and frequently meet at religious services in the Chinan Church adjacent to the Legislative Yuan. Now

and then after the meetings they would exchange views on current events, which constitutes an indirect dialogue between government and people outside it.

Even the New Testament Church, which has been a headache for the ruling party, has high regard for Mr Li Teng-hui. It believes that it is only because he reported to the highest level that some of its followers were able to return to Hsiangshan.

Mr Li Teng-hui is a devout Christian, but he can live with the teaching and spirit of other religions and does not favor one over the others. During his tenure as provincial chairman, he supported the Buddhist Tsuchi-kungdehui in its charitable drive to build a hospital, helping to raise funds and secure a construction site. As vice president, he also took part in mediating with political opposition forces and social dissident groups. He argues that politics of harmony can be achieved only through intercourse and coordination.

As far as heads of state go, Mr Li Teng-hui is clearly an ordinary "approachable" leader. He has traveled all over the place, sounding out public opinion. He has talked freely with reporters several times, taken to the streets to urge people to line up when they board a bus, and gone deep down into a mine, a helmet on his head. Passing by his official residence next to the Public Sales Bureau, one can often hear the bleating of sheep from inside the wall. The herd of sheep he brought back with him from Chinghsing Hsintsun takes frequent walks on the green lawn, showing a mild and serene disposition like their master's.

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Poll Shows Overwhelming Support for Li Teng-hui

40050103a Taipei TZULI WANPAO in Chinese
20 Jan 88 p 2

[Excerpts] The telephone survey was based on a random sample drawn from the residential telephone directory for the Greater Taipei area, using the equidistant sampling method. The gathering and analysis of questionnaire data were completed on the 14 January. Altogether 455 adults over the age of 20 in the Greater Taipei area were polled. Fifty nine people refused to be interviewed, yielding 396 valid responses. The margin of sampling error was plus or minus 4.8 percent.

Asked what they thought of Li Teng-hui [2621 4098 6540], 93 percent of the respondents described him with such positive adjectives as "quite good," "very good," "capable," "scholarly," "level-headed and steady," and "affable and approachable." This is consistent with the fact that about 93 percent of the interviewees said they supported him. More than half a month ago, a survey conducted by the Polling, Cultural, and Educational

Foundation found that 70 percent of the public were satisfied with his performance. It seems that Mr Li Teng-hui's personal popularity had shot up in a brief 10 days or so.

According to a survey report released by the Polling, Cultural, and Educational Foundation last December, the then vice president was the most popular government leader after President Chiang Ching-kuo.

Questionnaire on the Opinions of Greater Taipei Area Residents on the Succession of President Li Teng-hui

1. Do you know that Mr Li Teng-hui has succeeded Mr Chiang Ching-kuo as the seventh president of the Republic of China?

- 1) Yes 99.0 percent
- 2) No 1.0 percent (skip Question 3)

2. Do you support the succession of Mr Li Teng-hui as president?

- 1) Support 91.6 percent
- 2) Support in part 1.8 percent
- 3) Do not support 0.3 percent
- 4) No opinion (don't know) 6.4 percent

3. After Mr Li Teng-hui became president, are you confident about the pace of democratic reform in the country?

- 1) Confident 76.5 percent
- 2) not confident 1.3 percent
- 3) about the same (unchanged) 10.5 percent
- 4) No opinion (don't know) 11.7 percent

4. After Mr Li Teng-hui became president, are you confident about sustained economic growth in the country?

- 1) confident 73.2 percent
- 2) not confident 0.8 percent
- 3) about the same (unchanged) 13.7 percent
- 4) no opinion (don't know) 12.4 percent

5. After Mr Li Teng-hui became president, do you think the social order in the nation would change?

- 1) stable 43.8 percent

- 2) unstable 3.8 percent
- 3) about the same (unchanged) 35.1 percent
- 4) no opinion (don't know) 17.2 percent

6. After Mr Li Teng-hui became president, are you optimistic about Taiwan's future by and large?

- 1) optimistic 69.1 percent
- 2) not optimistic 1.3 percent
- 3) about the same (unchanged) 18.1 percent
- 4) no opinion (don't know) 11.5 percent

7. Sex

- 1) male 51.0 percent
- 2) female 49.0 percent

8. Age

- 1) 20-29 31.7 percent
- 2) 30-39 36.5 percent
- 3) 40-49 14.7 percent
- 4) 50-59 9.1 percent
- 5) 60+ 7.9 percent

9. Educational Level

- 1) elementary school or below 21.6 percent
- 2) junior high school 13.7 percent
- 3) senior high (vocational, technical) school 29.6 percent
- 4) post-secondary (2, 3, 5) 16.8 percent
- 5) college or above 18.3 percent

10. Occupation

- 1) military, government service, or education 12.6 percent
- 2) business 26.7 percent
- 3) industry 13.3 percent
- 4) self-employed or professional 9.0 percent
- 5) housewife 26.2 percent
- 6) retired, student, unemployed, or other 12.3 percent

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11. Provincial origin

- 1) Taiwan 74.3 percent
- 2) non-Taiwan 25.7 percent

- 2) toward Liberal Democratic Party 2.3 percent
- 3) outside the party 9.2 percent
- 4) none of the above 24.6 percent
- 5) don't know (refuse to answer) 10.5 percent

12. Party Leanings

- 1) toward Kuomintang 53.4 percent

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