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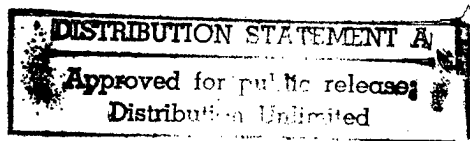
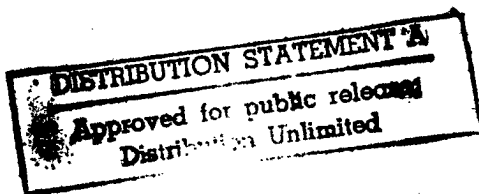
JPRS-CAR-88-005  
18 FEBRUARY 1988



**FOREIGN  
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# ***JPRS Report***

# **China**



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# China

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## NATIONAL AFFAIRS, POLICY

**Journal on Urban Economy During Initial Stage**  
*HK050901 Beijing JINGJI YANJIU in Chinese No. 12,*  
*20 Dec 8 pp 64-69*

[Article by Yang Chong Guang (2799 6850 0342) of the Institute of Finance, Commerce, and Commodity Economics of the Academy of Social Sciences: "Several Urban Economic Problems During the Initial State of Socialism"—revised Oct 1987]

[Text] The city is the core of modern society and the urban economy the mainstream of the entire national economy. In order to study and investigate theories of China's socialist urban economy and direct its development, we must have scientific and clear knowledge of the initial stage of socialism in China and use it as a foothold and starting point for the study; otherwise we cannot possibly understand the nature of the urban economy and scientifically grasp the pattern of the development of the urban economy, and in turn introduce construction in and reform of the urban economy. This article attempts to understand China's urban economy from the fundamental conflict and nature of the initial stage of socialism.

### **I. The Initial State of Socialism Is a Stage of Rapid Urban Development**

The development of human society, the development of social productive forces, and that of urban centers and the urban economy are in the same direction. The overall scope and overall level of cities depend on the overall level of social productive forces. Every time there has been a scientific technological revolution, tremendous progress in social productive forces has led to impressive development of cities and unprecedented prosperity in the urban economy. The Industrial Revolution, which started in Britain, brought along dramatic development of social productive forces. Socialized mass production employing machines quickly changed ways of production and life. There was also an historic change in the residential pattern. On the one hand, there was a drastic increase in the number of cities, conspicuous expansion in the size of cities, and rapid growth in urbanization. In 1800 the world's urbanization rate was only 3 percent; by 1900 it exceeded 20 percent. On the other hand, there has been a fundamental change in the status, role, function, nature, and structure of the city, so that new economic content, social relations, and urban landscape have had to adjust to new social productive forces. As the strength of the urban economy has grown incessantly, the city has led and dominated the village both politically and economically and has become the center of the entire society's economic activity. The revolution in science and technology after World War II brought new developments in social productive forces. The independence and liberation of developing nations have especially promoted the development of social productive

forces and brought cities into a new phase of development. In 1950, the world urban population was 0.706 billion. By 1970 it has reached 1.399 billion, an increase of almost 100 percent in 20 years; and the urbanization rate also rose from 28.2 percent to 38.3 percent. Another example of the dependence of the development of cities on social productive forces is that the higher the level of the social productive forces of a nation or region, the more developed the urban economy, and the higher the level of urbanization and modernization. At present, the urbanization rate of economically developed nations is usually above 70 percent, and for some it is as high as 90 percent or more. That of developing nations is usually 30 percent, and for some it is even below 20 percent.

A basic characteristic of the initial stage of socialism is the relatively low level of development of social productive forces. The needs of the masses and of the nation are not met. Therefore, to realize the four modernizations, it is a central task for the people of the whole of China at the present stage to raise our relatively low productive forces to a modernized level. This basic conflict and characteristic of the initial stage of socialism determines the main characteristics of urbanization of this stage:

1. The initial stage of socialism is a stage of rapid urbanization. The city is the central location for modern productive forces. The development of modern productive forces demands corresponding development of cities, not only in terms of growth in the number of cities, but also in terms of expansion in size and economic strength. Therefore, the initial stage of socialism must also be a stage of drastic growth of cities and rapid development of the urban economy, or a stage of rapid urbanization. There are two main factors in the urbanization of a nation. First, the development of urban industries and expansion of production lead to a great demand for labor. Second, higher agricultural productivity and intensive agricultural operation lead to a large surplus of labor that looks for an outlet outside the village. During the initial stage of socialism in China, these two huge torrents keep pushing the wagon of urbanization forward. 1) Socialist industrialization must lead to the tapping of resources, the construction of factories, and the development of communications, which in turn cause the emergence and development of large numbers of new industrial and mining towns and cities. Meanwhile, due to innovations in technology, construction of new factories, industrial regulation, and reform and expansion of enterprises in older cities, there is renewed demand for labor in these cities. As a result, new laborers tend to conglomerate in these cities in larger numbers than before, the development of cities is stimulated, and the demand for land increases. 2) Modern industries help mechanize agriculture, so that agricultural productivity grows rapidly. As a result, villages can provide more marketable grains and other agricultural products and by-products to support the development of cities. On the other hand, a large amount of rural labor must become superfluous and flow to the cities resulting in large-scale migration from rural to urban

areas. 3) Facilities for culture and education, scientific research, health, and sports, and a superstructure such as government offices and administrative organizations are necessary conditions for the industrialization and economic development of a nation. They develop continuously with the development of social productive forces. Since they tend to be located in cities, their development promotes the increase in the urban population and the expansion of the cities. 4) The urban infrastructure and public amenities develop with the increase in the number of towns and cities, the expansion of their size, and the growth of their population, and gradually strive toward modernization.

2. Convergent urbanization is the main form of urbanization during the initial stage of socialism. There are two stages and two forms of urbanization: convergent and divergent. Convergent urbanization means people from dispersed villages continuously flow toward the city. In other words, surplus labor and population from the villages become industrial labor and urban population. Divergent urbanization means inhabitants leave the inner cities and spread out to suburbs and towns nearby. Since the 1960's, major cities in some developed nations have been experiencing the stage of divergent urbanization. Their populations have been moving to suburbs and towns nearby, so that while the urban population has been decreasing, the population of surrounding villages and towns has been increasing. The kind of urbanization a nation adopts is not determined by subjective will. Rather, it is determined by its socio-economic conditions, especially the level of development of its social productive forces. Cities of economically developed nations adopt divergent urbanization because they have highly developed social forces, advanced technology for industrial production, developed communications and information systems, some high-income residents, convenient commercial services, and a complete urban infrastructure. In these cities, before productive forces reached such a high level, convergence was the main form of urbanization. Convergence and divergence are not two parallel forms of urbanization, but represent two stages. Convergent urbanization is the initial or necessary stage in the entire process of urbanization. A nation cannot skip over this stage and enter directly the stage of divergent urbanization. Divergent urbanization requires large amounts of investment. Although some signs of divergent urbanization have emerged in the process of urbanization in China (mainly in the major cities that are more modernized and economically developed), as a historical stage in urbanization, divergent urbanization has not really arrived yet. It will not be possible during at least the early and middle phases of the initial stage of socialism. Therefore, convergent urbanization is still the main form of urbanization during the initial stage of socialism.

The main characteristics of convergent urbanization during the initial stage of socialism in China are as follows: 1) With the increase in the number of cities, the urban population will steadily and gradually grow. The

main forms of migration are from villages to cities and from market towns to county towns to small cities to medium-sized cities to large cities. 2) The populations of large, medium-sized, and small cities, county towns, and market towns will grow at different rates. Usually there will not be large-scale, reverse-sized migration from cities to villages or from large cities to medium-sized cities to small cities to county towns to market towns to villages. 3) The economy of central cities will further develop. The function of central cities in organizing economic activities will strengthen, which in turn will contribute to expanding the scale of central cities. 4) Urbanization and the modernization of cities will develop in a coordinated way. This will create the necessary conditions for the transformation from convergent to divergent urbanization in the future.

3. It is an historical task for urbanization during the initial stage of socialism to gradually establish a rational system of socialist cities. Since the initial stage of socialism demands speedy, comprehensive, and multi-level development of social productive forces, cities of different scales, types, and regions will be developed. Large, medium-sized, and small cities, county towns, and market towns all have potential for growth and perform their specific functions in the growth of the entire economy. A rational and scientific system of cities means that there should be an adequate number of cities and an adequate urban population and urban economy to correspond to the level of productive forces. There should also be the most appropriate ratio in terms of scale of cities (such as large, medium-sized, and small cities, county towns, and market towns), type of cities (such as coastal cities, industrial base cities, commercial center cities, export-oriented cities, tourist cities, provincial capital cities, and comprehensive cities), and regional location of cities (such as cities along the eastern seaboard, in central China, Western China, and along the borders), so that there will be reasonable channels for population flow (including first flow, second flow, and reverse flow). A rational system of cities is a rational fulfillment of stratified structure and regional distribution of productive forces. A rational system of cities cannot be established through administrative orders and means alone and realized by compulsory migration or setting limits to the population of cities. Rather, it can be done through the implementation of a series of strategies, plans, and policies related to the rational distribution of productive forces, such as investment policy, industrial policy, financial policy, and population policy. In the establishment of a rational system of cities, migration is only a phenomenon and a consequence; economic development and distribution are the causes. The former and the latter should not be confused.

During the initial stage of socialism, especially during the early and middle phases of the initial stage, central cities are supported by modern and advanced productive forces and coastal cities are leaders in production technology. Both groups should be actively developed and play leading roles in the city system. In the industrial age,

new social productive forces cluster in modern industries. Therefore, large and medium-sized cities with clusters of large-scale modern industries attract the most advanced and strongest productive forces and perform central, leading functions in the development of social productive forces. Small towns have their own superiority and functions, too. They can interrupt the migration of rural inhabitants to cities and divert some of the city population, and absorb and digest surplus rural labor and population to a large extent. However, in no way can they replace large and medium-sized cities in the development of social productive forces and creation of new technology. Therefore, in the process of urbanization, while small towns and cities should be actively developed, large and medium-sized cities must also be developed in a rational way. Greater efforts should be devoted to the modernization of the latter so that their function as economic centers can be fully performed and a rational system of cities can be formed.

## **II. Uneven Development of the Urban Economy Is an Important Characteristic of the Initial Stage of Socialism**

The uneven development of cities and the urban economy is an international phenomenon. There are wide variations in levels of urbanization and modernization among regions and nations. In China, the same unevenness exists among regions, which results in various kinds of disparity. 1) Progress in urbanization varies. 2) The pattern, scale, and type of cities also varied. In some regions the hierarchy of towns and cities is incomplete and a particular type of city is lacking, especially large cities. In other regions large cities abound and their function as economic centers is evident. 3) The degree of maturity and level of modernization of cities differ. 4) The technological level, economic benefits, and economic functions of cities also differ. 5) The degree of economic prosperity is uneven, as are the income level and standard of living of inhabitants, which are determined by economic prosperity. In general, the eastern coastal region, the regions along the middle and lower courses of the Chang Jiang, the southern part of the northeastern region, and the Chu Jiang Delta region has a more intensive distribution of cities and more rational systems of cities. Their hierarchy of towns and cities is complete. Their central cities are more numerous. Their economy is relatively developed and their economic function evident. On the other hand, in the western regions, cities are dispersed and there are few large cities. They have no city system, their economy is weak, and their economic benefits and level of modernization are low. Such unevenness exists not only between regions, but also between cities. There are disparities between cities in terms of growth rate, economic structure, technological level, economic strength, economic benefits, and people's lives and culture.

Such unevenness can of course be attributed to the geographical environments, natural conditions, resources, histories, and communications of the regions and

cities; but it is fundamentally determined by differences in level of development of production technology, variation in level of productive forces, and degree of maturity of commodity economy. The initial stage of socialism is an age of development of planned commodity economy. The law of value plays a regulatory role. The market mechanism is an important mechanism that regulates social reproduction. Enterprises compete among each other. Under these conditions, two sets of factors determine the development of regions and cities. The first set is the state's strategies, planning, and policies in the development of productive forces and their regional distribution, especially the investment in and distribution of new items of construction and key items of reform. The second set is the degree of development of commodity economy and conditions for the economic growth mechanism in the regions and cities themselves. The determining role of the second set is becoming more and more pronounced and deserves more attention. As Marx points out: "It is self-evident that commerce relies on the development of cities and that the development of cities is conditioned by commerce." (Footnote 1) (Karl Marx: "Das Kapital," Vol 3, People's Publishing House, 1975 edition, p 371) Commodity economy is the soil, the environment, the foundation, and the condition for the development of a city. Urban economy and commodity economy mutually constrain or promote each other. Fundamentally speaking, whether commodity economy is developed or not is an internal force that determines the rise and fall of a city and is an important factor in the uneven development of cities.

To recognize the law of uneven development of the urban economy in the initial stage of socialism and understand the main cause of the unevenness is important for the correct and scientific direction of the development of the urban economy.

First, the development of regions and cities should be directed according to their specific conditions in a rational way. By no means should rigid uniformity be applied to all cities alike. Since the development of the urban economy is uneven, and regions and cities are at different stages of growth, policies and strategies for the development of cities should be formulated according to the present state of development of productive forces and the characteristics of the stage of development a city is in. Differences in the process of urbanization, degree of modernization, and speed of development of the urban economy should be allowed. Multiple models of development of the urban economy should be allowed. Differences in urban residents' consumption levels and patterns should be allowed. Some cities should be encouraged to overtake other cities and become developed and rich ahead of them. For example, in executing the policy of "controlling the scope of large cities, rationally developing medium-sized cities, and actively developing small towns and cities," the characteristics and actual conditions of each region should be dealt with in a flexible way. In the entire northwestern region, the

development of large, medium-sized, and small cities is inadequate, so that there are few large cities and the economy is weak and the economic development of other regions is restrained to a large extent. Therefore, the northwest should be treated differently from the eastern coastal region or regions with too many cities that are too large. There the attention should be on the increase in number and the expansion of large and medium-sized cities so as to strengthen their economic power and their function as economic centers. In this way the speed of urbanization will be accelerated and clusters of cities will be formed with large cities as the core, which will promote the development of the regional economy.

Second, based on the law of uneven development of the urban economy, each city should start from its own available resources, economic characteristics, market conditions, and quality of its residents to actively develop commodity production and commodity exchange, grasp and utilize opportunities favorable to the development of its urban economy, make good arrangements for its industrial structure, make good use of its favorable conditions, and mobilize the initiative of the city itself to speed up its economic development, raise its competitive power, and strive for survival and development in spite of uneven development. It should not simply wait for and rely on external forces to change the uneven situation; nor should it blindly and mechanically imitate other regions and cities.

Third, precisely because the development of the urban economy is uneven, the reform of the urban economic structure should adjust to the unevenness. Each city should be granted greater autonomy, especially over legislation, administration, and management. In so doing the cities can decide their direction, scope, and policy of development according to their actual conditions and stage of development. They can establish corresponding, appropriate economic management systems, strengthen their administration, and promote their development.

Fourth, under the premise and recognizing the unevenness, all levels of government should support and encourage the economic development of backward regions and cities, with the even development of the entire national economy and regional economy as the goal. This means adopting preferential policies and measures in investment, finance, material resources, taxation, education, and human resources, ardently supporting the development of commodity economy in these regions and cities, and promoting the economic links and collaboration between advanced regions and cities and the backward ones so as to coordinate the development of cities across the whole nation.

### **III. Urban Construction and Reforms Run Through the Entire Initial Stage of Socialism**

During the initial stage of socialism, cities should vigorously develop their productive forces and gradually realize the modernization of cities. They are facing a

formidable task of construction. They have to build not only modern industries, communications, commercial services, and facilities for science, technology, culture, education, and health, but also the urban infrastructure, public amenities, and housing. This is an important way of changing the backward economy of China's cities. On the other hand, cities should continuously introduce reform and regulation, implement regular and timely reforms to economic and political structures that are irrational and outdated, and regulate economic patterns, benefits, and relations that are not adjusted to each other. In retrospect, the whole process of urban development in China since the founding of the PRC actually reveals a unity of urban construction and urban reform.

A city is a complex and comprehensive economic and social organism. In urban socioeconomic movements, complicated and profound links occur between internal factors in cities, between cities, and between cities and the environment. They serve to activate each other. Rapid movement and change are obvious characteristics of cities and their economy. Urban construction and reform are caused by fierce changes in the internal factors of cities and their external environments. 1) The modern city is the center of science and technology and the birthplace of the scientific technological revolution. It represents advanced productive forces. 2) The city itself is in a moving, nonsteady condition; therefore, changes in its scope, nature, status, and economy are inevitable. 3) Under the mutual influence between cities and their environments, changes in their environments cause the development of cities. For example, with China's policy of opening up to the world and expansion of its trade relations with foreign countries, there has been obvious change in the status and functions of its coastal cities. Such change in turn stimulates the construction and development of these cities and causes them to introduce structural reforms and to implement new structures and policies. Both changes in the development goals, guiding thought, strategies, and policies of the entire national economy and changes in the world economy and market conditions will cause great changes in many aspects of cities. They will demand timely construction, reform, and regulation in the material state, industrial structure, organizational pattern, technological pattern, and employment pattern of a city. Due to the emergence and growth of new factors, even an advanced and perfect city necessarily breaks through its original stable state to build a new stable state. Therefore, construction, reform, and regulation run through the entire development process of a city.

Urban construction and reform are two fundamental aspects of urban development. At the same time, they form two main functions of cities. The two complement and promote each other, neglecting either one will not lead to healthy and rapid development of cities. Leaders and policymakers of cities must grasp both construction and reform and effectively handle the relationship between the two.

In China, although the development of cities has a long history, modernized urban construction started only after liberation. The main structure and infrastructure of our cities are still rather backward. The infrastructure is especially weak. Therefore the task of construction is extremely heavy. Meanwhile, many older cities were affected by semicolonial and semifeudal domination before liberation and were fettered by ideas of natural economy and product economy after liberation. Therefore, in the various aspects of production relations they have not been able to change to modernized urban development based on a commodity economy. A series of old and backward concepts, ideas, and systems continues to restrain and fetter urban development. Many new cities, developed either from village-type market towns or simple industrial mining areas, do not have a long history and do not have the factors necessary for a modern city. They are not yet mature cities. Therefore, the tasks of reforming and regulating both old and new cities are extremely heavy. In fact, there are many problems in urban construction and reform at present. There are many difficulties and longstanding problems. Moreover, construction and reform are divorced from each other. We should learn from past experience and clearly understand that the major conflict of cities during the initial stage of socialism is also the conflict between people's growing demand for material culture and backward social productive forces. In order to develop productive forces and quickly raise backward productive forces to a modern level, we must reform those parts of China's present production relations and superstructure that hinder the realization of the four modernizations and that are unfavorable to the development of productive forces, and we must get rid of the old forces. This main conflict determines that urban construction and urban reform is a long-term dual task of the initial stage of socialism.

**Investment Structure Improves During Past Year**  
*OW040001 Beijing Domestic Service in Chinese*  
0054 GMT1 Jan 88

[By reporter Xu Kehong]

[Text] Beijing, 1 Jan (XINHUA)—The unreasonable investment structure of capital constructions in China was greatly readjusted in 1987. The proportions of investment in capital goods, energy, raw and semifinished materials industry, and key state projects all increased considerably. The investment structure showed the most noticeable improvement in recent years.

According to related statistics, among the 134 billion yuan invested in capital construction by units owned by the whole people last year, the proportion of investment in capital goods rose from 60.6 percent in 1986 to 66.5 percent last year, an increase of 5.9 percentage points. The nonproductive investment declined from 39.5 percent in 1986 to 33.5 percent last year, a decrease of 6 percentage points. The decline made the nonproductive

investment close to its level recorded in the first 5-year economic plan. The 11.9 percentage points from adding the percentage points of increase and decrease in capital goods and nonproductive investment showed the noticeable achievements China had attained in its efforts to readjust investment structure last year. It was the result of carrying out the policy of "three guarantees and three restrictions." By making efforts to retrench spending on nonproductive projects, the state would be able to use the precious construction fund more reasonably.

In 1987, fund and material were concentrated on the development of energy and raw and semifinished materials, the weakest sector of the national economy. Investment in this sector recorded much higher growth than in the processing industry. The proportion of investment in the energy industry increased from 22.8 percent of the previous year to 25.2 percent last year, with investment in the exploitation and refinement of crude oil recording 35.5-percent growth. The proportion of investment in raw and semifinished materials climbed from 12.8 percent to 13.5 percent, with investment in iron and steel industry recording 45.6-percent growth from the previous year.

Last year, the state and key enterprises ensured the completion of key state projects by issuing bonds as a way to divert part of the construction fund to these projects. As a result, key state projects could be carried out more quickly. Various local authorities also retrenched spending on nonkey projects to ensure the completion of key projects. Last year, 35 billion yuan were invested in 205 key state projects, exceeding the planned 3-year total investment amount for these projects by 6 percent. In the first 3 quarters last year, Fujian Province suspended and postponed 103 nonkey projects under construction, saving 4 billion yuan and making it possible for investment in key projects to increase 1.3 times. All this has expedited construction of key projects and reduced overall investment in capital constructions without adverse effect.

**Economic Laws To Be Publicized Nationally**  
*OW120121 Beijing Domestic Service in Mandarin*  
1030 GMT9 Jan 88

[Text] Addressing a national conference today on implementing economic laws among enterprises, Zhang Yanning, vice minister of the State Economic Commission, said that the commission plans to implement 10 laws and 6 regulations among all economic administrative departments and enterprises within 2 years, including the State Industrial Enterprises Law, Economic Contract Law, Regulation on Responsibility for Product Quality, and Regulation on the Work of Plant Managers,

Zhang Yanning said: Reform of enterprises this year should concentrate on reforming the operational mechanisms of enterprises, further improving various forms of the contract responsibility system in business operations, enhancing the vitality of enterprises, ensuring

efficiency, training qualified personnel, developing new products, and gaining new experiences. At the same time, it is necessary to introduce competition mechanisms to the contract responsibility system in business operations in order to promote the reform of enterprises' cadres management system. It is imperative to speed up the comprehensive enforcement of a system whereby plant managers assume full responsibility. All state industrial enterprises must introduce this system by the end of this year.

Zhang Yanning stressed: In order to ensure the smooth progress of reform, economic administrative departments and enterprises must be familiar with the essential economic laws and regulations if they are to manage the economy and to enforce discipline according to law.

He said: After the industrial enterprises law is officially promulgated, all localities and departments must give priority to studying and implementing it. Other tax laws should be included in the popularization of economic laws and must be earnestly implemented.

### Policy Options To Resolve Wage, Price Disparities

40060054 Beijing *JIAGE LILUN YU SHIJIAN*  
[PRICE: THEORY & PRACTICE] in Chinese No 5  
20 Sep 87 pp 17-18

[Article by Cui Wei [1508 0251]: "How We Might Resolve the Discrepancy Between Wages and Prices"]

[Text] The present strains in wage-price relations epitomize the difficulties in economic reform. But the basic solution must be found elsewhere. For starters, we must tackle the macroeconomic environment and determine the relationship between a stable currency system and prices, topics to be explored in a separate article. Here we limit ourselves to offering some suggestions regarding the relationship between wages and prices.

If the price index can be held below 3 to 5 percent each year, the disparity between monetary wages and actual wages can by and large be covered by normal wage increases and this article need not have been written. The wage-price disparity we are now facing results from the fact that the workers' cost-of-living index has been rising by at least 6 percent and has even reached double digits. These are the policy options currently available: 1) link the workers' cost of living index to the price index; 2) link standard wages to the price index; and 3) formalize the fixed price subsidy system, at the same time increasing wage standards. In these belt-tightening times, I think the institutionalization of the fixed price subsidy system coupled with increases in wage standards presents a sound and practical approach acceptable to all parties. The following is an analysis of the pros and cons of the three options.

(1) Linking the workers' cost of living index to the price index, that is, we take as the base the average expenses of a worker necessary for the maintenance of a basic standard of living and multiply it by the price increase rate for a specified period and the average number of dependents per worker. The product will be the amount of price subsidy that is due him as a result of linkage. On average, an urban resident must spend about 70 percent of his monthly living expenses on necessary consumption. The price index to which the basic cost of living index is to be linked will be the workers' cost of living price index. The characteristics of this approach are: 1) People at all income levels on average will receive compensation of an amount sufficient to guarantee the satisfaction of basic daily needs. The disparity between high-income and low-income people will not be excessive. 2) This policy clearly serves the purpose of guaranteeing a basic living standard for low-income workers. This is because low-income people spend proportionally more on food, non-staple foodstuff, and daily consumer goods and services, and it is exactly the prices of these goods and services which have been rising most rapidly. 3) There is a clear distinction between this policy and the full indexing of wages. Its consequences are a watered-down version of those of full indexing. In fact, it is a modification of full indexing and also bears a resemblance to a fixed price subsidy system. Its obvious disadvantages are these. Wage levels in China were quite low to begin with. In several years' time, with price subsidies accounting for a hefty portion of wages, the present wage relationship will be disrupted, gradually eroding wage differentials. Take the situation in Beijing, for instance. There the wage standards of enterprise workers range between 38 and 114 yuan, the maximum wage being three times the minimum wage. Add the price subsidy, which is fixed at a flat rate of 12.5 yuan, however, and the wage standards will range from 50.5 to 126.5 yuan, the maximum wage reduced to just 2.5 times the minimum wage. In the long run, this will result in rampant egalitarianism in wage relations. Moreover, although this approach is one of partial indexing, it will in reality have the same results as full indexing in view of the irregular behavior of China's commodity economy.

2) Link standard wages to the price index, that is, protect the value of standard wages by letting them float with the price index. To establish the wage increase rate to offset price increases for the preceding year, we multiply the wage standards by the increase rate in the workers' cost of living. The characteristic of this approach is that it will not upset the existing wage relations and can guarantee the purchasing power of wages without eroding existing wage differentials. Its shortcoming is that people earning different standard wages would receive varying amounts of compensation, which may provoke objections among low-income people. As far as distribution within an enterprise is concerned, workers usually are paid low standard wages and high bonuses. If only standard wages are linked to the price index, what about the bonuses? In fact, this would lead to a series of chain reactions.

The two policy options mentioned above remain essentially indexing. If either one is adopted, it will lead to a series of intractable problems. How do we arrive at a scientific reasonable workers' cost of living price index? At present workers do not understand indexing and are skeptical about it. The creation of a reasonable scientific indexing statistical system is not something that can be accomplished in the short run. If one uniform index is applied nationwide, the result will be regional imbalances. And if we use regional indices, wages would be inflated in high-index regions, which would militate against price supervision and control. Moreover, complaints and grievances about prices would translate into complaints and grievances about indexing, leading inevitably to a round of wage-price spiral. It is suggested by some that linking wages to prices would not lead to a wage-price spiral because price increases precede the payment of compensation. Linkage, it is argued, does no more than ensuring that the purchasing power of money would not decline; it will not increase purchasing power. Besides, accounting for barely 8 percent of the costs of an enterprise, wages are said to have limited stimulative effects. All these arguments are too "idealized." First of all, given the fact that we are already in a mildly inflationary economic environment, linkage will only add fuel to the fire. In addition, there is a limit to the expansion in the supply of articles of daily use. Since the substitutive value of commodities differs, shifts in demand will exacerbate structural conflicts. Furthermore, how are interest rates on deposits and treasury bonds to be adjusted? If interest rates on deposits are to be adjusted in a way that would not cause bank profits to decline, interest rates on loans must go up correspondingly, which will mean rising expenses for enterprises, further boosting their operating costs.

In view of this, I believe the institution of a fixed price subsidy system coupled with raising wage standards is a more feasible approach. This is how it will work. Now price subsidies are "fixed for all time." To improve upon that, we should set a price subsidy each year as prices go up in order to institutionalize it, its value to be the joint responsibility of the central government, local authorities, industrial departments, and enterprises. That way workers will realize that the government does take into consideration the losses caused them by price increases. Meanwhile, wage standards should be revised every 2 to 3 years. This ensures that every worker obtains equal compensation, thus avoiding complaints from people at different income levels. Also it avoids the stresses in wage relations caused by the excessively large portion of price subsidies, thereby sidestepping the intractable problems mentioned above. As a matter of fact, there are two ways to raise wage levels: promotion and raising wage standards. We know from experience that promotion tends to cause disparities. In any case, promotion is no way to solve the conflicts in wage-price relations. That our wage standards have remained unchanged for years has led to some passivity on the job.

In short, the principle we should follow to solve conflicts in wage-price relations at present is that the state,

localities, workers, and enterprises should share the responsibility. As economic structural reform becomes more thoroughgoing in the days ahead, the enterprise should assume the primary responsibility for resolving the conflicts. On the second front is the state, whose responsibility is to lead. Departments and institutions should keep a close watch on the average levels in enterprises and act accordingly.

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#### **Authoritative Statistics To Be Available Overseas**

*HK191500 Hong Kong XINHUA in English  
1311 GMT19 Jan 88*

[Text] Beijing, January 19 (XINHUA)—Authoritative statistics of 36 important Chinese economic sections will be available to businessmen overseas starting February. The statistics will be released by China Economic Information Service (CEI) of XINHUA NEWS AGENCY.

An agreement to provide these figures has been reached this week between CEI and the Chinese Statistical Information and Consultancy Service Center (CSICSC) of China's Statistics Bureau.

The statistics include those on industry, agriculture, finance, commerce, foreign trade, tourism, capital construction, communications and transportation, post and communication, employment, wages, prices, energy and resources to meet the demand of subscribers.

Ranging from national to local, macro as well as micro economic information, the statistics will be released on a monthly, quarterly, biannual and yearly basis.

Using the advance electronic mail system of the Cable and Wireless (Hong Kong) Ltd., CEI provides timely, comprehensive and authoritative information on the Chinese economy, stressing economic and financial movements and new policies, laws and regulations, as well as information on China's open areas.

Since the opening of money markets in China, stress has also been put on details of money market prices, the issuance of securities, interbank exchange movements, demand and supply of money and credits, and exchange rate quotations of major currencies in the world.

CEI is transmitted three days a week on Monday, Wednesday and Friday. The data are stored in the data bank of Cable and Wireless (Hong Kong) for at least three months. (The N.C.N. Limited at 5 Sharp Street West, Hong Kong, is responsible for the subscription to the CEI service. Its telephone number is 5-752197).

## PROVINCIAL

### **Shaanxi Leaders View Economic Problems**

*HK010349 Xian Shaanxi Provincial Service in  
Mandarin 0030 GMT1 Jan 88*

[Excerpts] Yesterday morning, Acting Governor Hou Zongbin and Vice Governors Zhang Bin, Lin Jizhou, and Sun Daren held a forum with some economic workers to listen to their views, suggestions, and criticisms on economic development and the deepening of reforms in the province. [passage omitted]

Hou Zongbin said at the forum that the following problems currently exist in Shaanxi's economic development: The speed of development is slow; the capacity of agriculture to withstand natural disasters is weak; and financial difficulties are constraining the progress of our work. The tasks in economic work in the new year are to stabilize the economy and deepen the reforms. [passage omitted]

Hou Zongbin in conclusion welcomed everyone to put forward more criticisms and views on the government's work. If they have views or ideas, they should make a telephone call or write a letter.

### **Qinghai Government Work Report on Economy, Reform**

*HK230132 Xining Qinghai Provincial Service in  
Mandarin 2300 GMT 21 Jan 88*

[Text] In his government work report delivered at the first session of the Seventh Provincial People's Congress, Song Ruixiang, governor of the provincial people's government, noted: Over the past 2 years, our province has been successfully implementing the Seventh 5-Year Plan. The growth rates of our province's major economic indicators have approached or exceeded their average national levels. The major targets set for economic returns in our province have been improved to some extent. The actual economic strength of our province has been markedly increased. It is estimated that the province's total social production output value in 1987 reached 6.76 billion yuan, an increase of 48.9 percent as compared with 1982, with its average annual growth rate reaching 8.3 percent; the province's total industrial and agricultural output value reached 3.68 billion yuan in 1987, an increase of 61.4 percent as compared with 1982, with its average annual growth rate reaching 10 percent; the province's gross national product (GNP) in 1987 reached 4.2 billion yuan, an increase of 72.3 percent as compared with 1982, with its average annual growth rate reaching 11.5 percent; the province's national income in 1987 reached 3.2 billion yuan, an increase of 68.1 percent as compared with 1982, with its average annual growth rate reaching 10.9 percent; and the province's per-capita income in 1987 reached 744 yuan, an increase of 54.5 percent as compared with

1982, with its average annual growth rate reaching 9 percent. The province's economy has begun to advance toward steady and coordinated development.

In his government work report delivered at the first session of the Seventh Provincial People's Congress, Song Ruixiang, governor of the provincial people's government, noted: To promote reform of the political structure, we must now do well in promoting work in the following three aspects.

First, we must conscientiously study the report to the 13th Party Congress and lay solid ideological foundations. Second, we must make thorough investigations and studies, and do well in completing preparatory work. In the light of the actual conditions of Qinghai province, government organs must be gradually turned into smaller but more efficient ones. Cadres, staff members, and workers in organs and institutions should flow to enterprises and grass-roots units. Regarding reform of government organs, we must begin now to make in-depth investigations and classified studies, start doing feasibility studies, and formulate our province's reform program.

Third, in conducting reform, we must be firm, resolute, and cautious, and go about things steadily and surely. Government departments must grasp the key link of changing functions, separate the functions of the government from those of the enterprise, gradually delegate powers to lower levels, and give full play to the role played by key cities. We must regularly hold consultations and dialogues in our society, listen promptly and attentively to the views of the masses, study and solve the people's problems, and increase the transparency of government work and the democratization of policy-making procedures through scientific means. We must lead the competitive mechanism into office management, and create conditions for enabling government personnel to give full play to their talent and abilities.

Governor Song noted: As reforming the political structure will involve many quarters, we must formulate a well-conceived plan, and conduct reform of the political structure step by step. Prior to reforming government organs, all the existing personnel in government organs must stand fast at their posts and attend to their own duties. During our reform, we must ensure that all types of work can be carried out normally.

### **Near-bankrupt Wuhan Enterprises Sold at Auction**

*OW230205 Beijing XINHUA in  
English 0232 GMT 20 Jan 88*

[Text] Wuhan, January 20 (XINHUA)—Twenty-seven factories on the verge of bankruptcy in Wuhan were recently merged into local profit-making enterprises.

The practice was described by the government of this capital of Hubei Province as a step to deepen the ongoing economic reform.

The Wuhan Towel Plant lowered production costs and increased profits by 400,000 yuan a month after it bought out another towel plant which was losing money.

"The auction of money-losing enterprises will speed up capital turnover and benefit intensive management," said the director of the plant.

As much as 10 billion yuan has been extended in loans over the past few years to some unprofitable plants which are now unable to repay the loans as a result of poor management, according to an official of the local Industrial and Commercial Bank.

The bank recovered more than 10 million yuan from auction of the 2 money-losing enterprises, added the official.

### **Beijing to Begin Housing Reform in Late 1988**

*HK250520 Beijing CHINA DAILY in English 25 Jan 88 p 3*

[By staff reporter Li Chao]

[Text] Beijing will start its housing reform programme in the second half of this year, said Huang Jicheng, director of the Beijing Civil Engineering and Supervision Commission at a press conference yesterday afternoon.

The reform programme seeks to solve the long-standing housing shortage in the city.

According to Huang, people's rent will be raised in order to accumulate funds for housing construction. The rent charged will cover housing repairs, maintenance, investment benefits and housing tax.

The present housing system provides too many subsidies for the residents and the rent is also much too low, Huang said. Rent money accounts for about 1 percent of the city's revenue.

Coupons will be issued to help residents with their higher rent as wages will remain unchanged. The subsidy will be about 25 percent of one's monthly wage.

The purpose of the reform is to make the people feel that buying a home of their own would be the cheapest way of living.

Some large enterprises in Beijing will experiment to explore the best way to reform the present housing system, Huang said.

Beijing built 9.2 million square metres of housing last year, an increase of 130,000 square metres since 1986.

About 400,000 households in Beijing are running short of space at present although statistics show that each person has an average of 6.7 square metres of living space.

Vice-mayor of Beijing, Zhang Baifa, said high-grade hotels will be strictly controlled in future and medium-grade hotels will be increased to accommodate more tourists as this is the Dragon Year of International Travel.

At a previous press conference, Vice-Mayor Zhang Jianmin told reporters that a survey of 1,000 Beijing households demonstrated that 75.7 percent of them had increased their standard of living in 1987 over the year before, while 24.3 percent suffered a decrease due to rising prices. People affected by the increase were mostly retired people and cadres in government units. Zhang said this should be noted by the municipal government.

As for the rising prices, the vice-mayor said people will be informed beforehand if prices of goods under the direct control of the government are raised in the future. But some prices are hard for the government to control, such as those in the free market, which are largely regulated by market demand and supply.

A commodity price management bureau will be set up in each county or district of the city this year to supervise more closely market prices and to check any illegal activities. There are now more than 600 people supervising market prices in the city.

Despite the price increases last year, Beijing still had the lowest increase compared with 29 other cities in the country.

### **Shanxi Governor Views Future Government Work**

*HK230543 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 22 Jan 88*

[Excerpts] Governor Wang Senhao put forward suggestions on future government work in his report to the first session of the Seventh Provincial People's Congress. He said, in the next 5 years we should do very well at implementing the following guidelines: Unswervingly carry out economic and political structural reform; expand the effort to open up and organize exchanges with the world to further emancipate the social productive forces; concentrating on building Shanxi into an energy and heavy and chemical industry base, continue to get a good grasp of energy and communications, education, science and technology, technological transformation, environmental protection, the development of agriculture, and assistance for poor areas in transforming their appearance; and strive to fulfill and overfulfill the seventh 5-year plan.

We must assign agriculture an extremely important strategic position, further deepen the rural reforms, increase investment in agriculture, vigorously grasp

grain production, and strive to improve our self-sufficiency level in grain. We must concentrate forces to solve the food and clothing problem in poor areas, and bring living standards in those areas up to the level of the peasants of the province as a whole.

We must assign the primary position to science, technology, and education and ensure relatively great development in these sectors. We must attach importance to research and exploitation of new technology, and ensure that science and technology is turned into new productive forces as quickly as possible. [passage omitted]

In economic work, we must implement the principle of stressing returns, improving quality, promoting coordinated development, and achieving steady growth, and further base economic development on scientific and technological progress and the improvement of economic returns. We must rationally readjust the production structure and product mix to meet the needs of the domestic and foreign markets and the people's needs in daily life. [passage omitted]

We must persist in building the two civilizations together, strictly control the excessively rapid growth of the population, step up the work of controlling environmental pollution, and pay attention to ecological balance. We should further improve the living environment and standards of people in the urban and rural areas.

By achieving these goals, we can lay a good foundation for attaining a comfortably well-off living standard by the end of the century. [passage omitted]

In making overall arrangements for Shanxi's economic construction, we must clearly understand the guiding idea that building the province into an energy and heavy and chemical industry base is the arduous and glorious task assigned the province's people by the CPC Central Committee and State Council, and constitutes the overall national picture, over which there cannot be the slightest wavering; and that agriculture is the foundation of building the province into an energy and heavy and chemical industry base. The base and the foundation depend on and stimulate each other and develop together; neither of the two aspects can be neglected.

The general demand on the province's rural work in 1988 is to deepen the reforms, increase investment, improve services, and further mobilize the peasants' enthusiasm so as to achieve a relatively big revival in grain production and stimulate all-round development of the rural economy.

Governor Wang Senhao said in his report that in line with the spirit of the 13th Party Congress and the central authorities' arrangements, the focal points in economic structural reform in the province this year are: to fully institute and perfect the various types of enterprise

contracted management responsibility systems; to promote reforms of the leadership and operational mechanism in the enterprises; to strengthen the scientific management of the enterprises and stimulate their technological progress; and to vigorously improve enterprise economic returns. At the same time, in accordance with the state's unified plans, we should promote reforms in a measured way in the investment, foreign trade, material supply, and housing systems. We should also actively prepare for reforms in the planning, financial, and taxation systems.

In 1988, we should actively and steadily carry out political structural reforms under the leadership of the provincial party committee and in accordance with the unified plans of the central authorities. We must persist in delegating powers to lower levels, with the focus on expanding the powers of key cities and enterprises and undertakings. Regarding relations between the province and the cities and counties, we should gradually bring about a situation in which the cities and counties look after their own affairs. In relations between the government and the enterprises, undertakings, and units, we should delegate to them the operational and management powers, and gradually bring about a situation in which the units look after their own affairs, with the government's responsibility being to serve the enterprises and also supervise them in accordance with the laws and policies.

We must thoroughly delegate to the enterprises those powers decreed by the State Council documents and the province's 35 regulations, and the intervening levels are not allowed to retain such powers for themselves. In the future, the provincial government departments will no longer directly manage the enterprises. Apart from a few large enterprises and consortia which enjoy separate listing in the plans, the enterprises will be delegated to the key cities, or the cities where they are located, for management.

The reform of the government organs will be arranged by the provincial authorities in a unified way and carried out in a planned and measured fashion in line with the State Council's plans. This year, the effort will be centered on separating party and government functions and government and enterprise functions, delegating powers, and changing the functions of the government organs. The departments should carry out careful investigation and study and seriously analyze the functions of the existing government organs; those functions that should be delegated must be, while the remaining functions should gradually be shifted to exercising indirect and macroeconomic management, making overall arrangements and providing coordination, services, and supervision, and doing good things for the grass roots and the masses. [passage omitted]

### Guangdong Governor Delivers Work Report

HK221027 Guangzhou Guangdong Provincial Service in  
Mandarin 0400 GMT 20Jan 88

[Text] At 0900 on 20 January, as the great national anthem resounded through the magnificent Zhongshan Memorial Hall, the First Session of the Seventh Guangdong Provincial People's Congress opened grandly. Some 736 people's deputies, selected by people throughout the province, proudly entered the hall to attend the solemn meeting.

The opening ceremony was presided over by Luo Tian, executive chairman for today's meeting. Guangdong Provincial Governor Ye Xuanping delivered a government work report to the session.

[Begin recording] Delegates, on behalf of the provincial people's government, I now deliver a work report to the session for examination and approval. [end recording]

Governor Ye's report was divided into three parts. In the first part, he reviewed the main achievements of the current government during the past 5 years. He said: In the past 5 years, under the leadership of the CPC Central Committee, the State Council, and the Guangdong Provincial CPC Committee, people of various nationalities in the province have worked with one heart and one mind, offered their wisdom and efforts, and struggled and worked hard for the prosperity of the province, thus promoting economic and social development in the province and laying a solid foundation for attaining the economic development target of fulfilling the Seventh 5-Year Plan and quadrupling the province's industrial and agricultural output value ahead of schedule.

In the second part of his report, the governor talked about several major experiences gained by the provincial government through its work during the past 5 years. He said: [Begin recording] In the past 5 years, we continued to carry out exploration and forge ahead on the road of reform. In this great practice and transformation, the vast numbers of cadres and the broad masses in the province have accumulated quite a lot of experiences, which are valuable wealth in guaranteeing the forging ahead of our cause. [end recording]

Governor Ye summarized the experiences as four points: 1) Adhere to the ideological line of seeking truth from facts and integrate resolute implementation of the policy of reform and opening up with Guangdong's practical situation. 2) Resolutely and constantly establish new ideas and concepts suited to the development of socialist commodity economy and eradicate old ideas and concepts. 3) While adhering to reform and opening up, we must base ourselves upon fully mobilizing and arousing the initiative of all sectors and all levels. 4) The building of socialist spiritual civilization must run through the whole course of building material civilization.

In the third part of his report, Governor Ye made new forecasts for the work of governments in the province and gave his opinions on work in 1988. He advanced a basic strategic concept for the province's socialist economic development. He said: [Begin recording] The province's economy should be oriented to the world economy, depend on the domestic market, rely on scientific and technological progress and scientific management, bring into full play the role of the three special economic zones, vigorously develop the export-oriented economy, accelerate the progress of economic modernization, and turn the Zhu Jiang Delta, with Guangzhou as its center, into an economic region which mainly develops the export-oriented economy and which can exert relatively great influence on areas inside and outside the province, so as to promote further economic development in coastal and mountainous areas. Thus, we can build Guangdong into a province which has a relatively developed socialist commodity economy and which opens up to the world more widely. [end recording]

In conclusion, Governor Ye Xuanping said: [Begin recording] Deputies, we are now taking a new road of reform, opening up, and development. We must solve the difficulties and problems we now face and we need to score new achievements. The tasks confronting us are glorious and arduous. People throughout the province must unite closely around the CPC Central Committee, hold aloft the banner of building socialism with Chinese characteristics, work with one heart and one mind, be modest and prudent, work in a down-to-earth manner, rely on our own efforts, struggle hard, and advance bravely toward the grand target of socialist modernization. [end recording]

The executive chairmen for today's meeting were Luo Tian, Lin Ruo, Ren Zhongyi, (Li Jianzheng), Wu Nansheng, Zhang Juhui, Fan Xixian, Yi Meihou, (Ma Qingdong), and (Long Jiangliu).

In his government work report to the first session of the Seventh Provincial People's Congress, Ye Xuanping said: The past 5 years have been the period in which the province's economy developed most quickly, and the people's livelihood has improved most remarkably.

Ye Xuanping said: During the 5 years, the province achieved ahead of schedule the target of doubling its annual industrial and agricultural output value, using 1980 as the base. The province's total export volume in 1987 exceeded \$5 billion. Both rural and urban markets have become more and more brisk and there have been more and more varieties of commodities. The province's national income increased by 73.8 million yuan annually on average. After deduction of price increases, the per capita income of urban residents and peasants increased by 38.2 and 35.7 percent respectively during the past 5 years. The total savings deposits of urban and rural residents increased by more than 400 percent. The floor area of residential property built in the 5 years amounted

to 80 percent of the total floor area of residential property built in the preceding 30 years. Some 1.03 million urban families moved into new houses. In areas where commodity economy is developed, the living standard of some people has reached the well-off level. The livelihood of people in mountainous and poor areas has also improved to differing extents.

### **Lu Rongjing Delivers Anhui Government Work Report**

*OW301449 Hefei Anhui Provincial Service in  
Mandarin 1100 GMT 27 Jan 88*

[Excerpts] Some 85 percent of the population in our province live in rural areas, and they produce nearly 50 percent of the province's income. To maintain steady economic growth, the first thing is to stabilize agricultural production and develop a commodity economy in rural areas. This is quoted from the government work report delivered by Acting Governor Lu Rongjing at the first session of the provincial People's Congress.

The report says: Grain is a major agricultural problem. All other trades will suffer if grain production is unstable. To maintain a steady increase in grain production, continued efforts should be made to stabilize and perfect the system of contracted responsibilities tied to output, implement rural economic policies, encourage parttime operations, and establish and perfect the system of socialized services. [passage omitted]

It is necessary to earnestly implement the Land Management Law as well as the measures for implementing the law adopted by the Provincial People's Congress Standing Committee, establish and perfect the land management system, strictly ban indiscriminate occupation and use of cultivated land, and restrict the amount of land for use in construction.

To build up the power for sustained agricultural development, it is imperative to increase agricultural investment, speed up the construction of farmland irrigation projects and other infrastructure facilities, and build production bases for various types of commodities. [passage omitted]

Touching on research in and popularization of agricultural science and technology, Acting Governor Lu Rongjing said: Speeding up the research in and popularization of agricultural science and technology is of particular importance to our province in view of its large population, limited land area, and fairly low per unit grain yield. Agricultural and scientific departments at all levels should vigorously popularize projects in agricultural science and technology suitable to them, draw up plans for popularization without delay, pass them on to all levels down to the county level, and examine the implementation of these plans, item by item, to make sure that they really bring benefits.

### **Governor Gives Guidelines in Jiangxi Work Report**

*OW021029 Nanchang Jiangxi Provincial Service in  
Mandarin 0400 GMT 27 Jan 88*

[Excerpts] In the report on the work of the Jiangxi Provincial Government delivered at the first session of the Seventh Provincial People's Congress, Governor Wu Guanzheng defined the major tasks in promoting economic and social developments for the next 5 years in Jiangxi.

Wu Guanzheng said: The central authorities have divided the strategy for China's economic development into three steps. The targets for the first step have been largely fulfilled. Now we must take the second step. The next 5 years constitute the most crucial period in taking the second step. In order to carry out the strategy of steady growth and coordinated development with the emphasis on economic results and improvement of quality, Jiangxi must work hard to achieve a sustained, steady economic growth, while trying to improve economic results. Our tentative idea is: By 1992, our total output value of industry and agriculture is expected to reach 51.1 billion yuan with an annual growth rate of 9.4 percent. The gross national product in the province is expected to reach 44 billion yuan with an annual growth rate of 8.5 percent. The total output value of village and township enterprises is expected to reach 17.2 billion yuan with an annual rate of growth of 24 percent, and that of rural enterprises is expected to surpass 2.8 billion yuan. The revenues are expected to reach 4.3 billion yuan with an annual rate of growth of 8.8 percent. The number of counties in the province that receive financial subsidies from the province is expected to drop to less than 15. The value of retail sales is expected to reach 21.1 billion yuan with an annual rate of growth of 10.9 percent. The per capita income for each peasant is expected to reach 600 yuan, with an annual growth rate of 7 percent. We will concentrate our efforts in developing some major projects, and try to complete the construction of two large chemical fertilizer plants so as to solve the problems caused by the shortage of chemical fertilizer in the province. We will expand and build some large power plants, trying to increase the installed capacity of all power plants in the province by 1.3 to 1.7 million kw. [passage omitted]

Wu Guanzheng pointed out: In order to fulfill the targets in taking the second step of our strategy, we must do a good job in carrying out our work for this year. We must firmly implement the guidelines laid down by the 13th CPC National Congress and the fifth enlarged plenary session of the Eighth Provincial CPC Committee. We must resolutely follow the principle of further stabilizing the economy and deepening the reform, let reform play a dominant role in developing the overall situation, promote developments by opening to the outside world, pay full attention to improving economic results, and bring about remarkable progress in science and technology. We must realize sustained and steady economic growth,

actively adjust the structure of production, and increase the proportion of the high quality brand name products in the total output value of industry, the proportion of the products from the development of diversified economy in the total output value of agriculture, the proportion of the output value of village and township enterprises in the total product of society and the proportion of the total output value of export goods in the gross national product [gross national product refers to productive and non-productive sectors, and net income from abroad—FBIS]

## FINANCE, BANKING

**Beijing Becomes Inter-Bank Loan Center**  
*OW042345 Beijing XINHUA in English*  
1320 GMT4 Jan 88

[Text] Beijing, January 4 (XINHUA)—The Bank of China borrowed 500 million yuan from the Beijing branch of the Industrial and Commercial Bank of China, instead of from its own sources, when it found itself short of cash last July.

The Bank of China used this sum of money to help both foreign trade departments throughout the country in purchasing products and expanding their export capabilities, and foreign capital enterprises in expanding production.

The Beijing branch of the Industrial and Commercial Bank of China gained more than 2.1 million yuan in interest out of the arrangement, aided by the fact that the interest rate on inter-bank loans is higher than that gained from savings account deposits.

Beijing has become the largest trans-regional center of inter-bank loans as a result of financial reforms which allow for the horizontal flow of funds between financial institutions.

The short-term loans provided in the past 3 years by Beijing branches of the Industrial and Commercial Bank of China and the Agricultural Bank of China to financial institutions in more than 100 cities and counties in 21 provinces, municipalities, and autonomous regions has amounted to 10.7 billion yuan.

In the past, the People's Bank of China monopolized the allocation money to its local branches and other special banks. If other banks were short of funds, they had to make requests for more from the Bank of China.

If some special banks had surplus funds, they could only deposit it in the central bank. Funds were not allowed to flow between banks in different regions.

This resulted in a less than efficient utilization of funds, thus hampering economic activity.

The horizontal flow of funds at floating interest rates has strengthened banks' sense of management and efficiency. To provide more inter-bank loans, the banks in Beijing devote a major part of their effort to organizing deposits and rectifying and calculating their cash position every day.

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*HK010902 Beijing JINGJI YANJIU in*  
*Chinese No. 12, 20 Dec 87 pp 33-39*

[Article by He Zhenyi (0149 2182 0001) of the Institute of Finance, Commerce, and Commodities Economics of the Academy of Social Sciences: "Coordination Between Financial and Monetary Policies"]

[Text] I. Thoughts on the Theory of Coordination Between Financial and Monetary

Society's way of regulating and controlling its economic operations is determined by its economic structure. The reform of the economic structure of our country is to transform the product economy to a planned commodity economy. Hence, in macroeconomic management, it is necessary to make full use of the law of value and establish a regulatory and controlling structure of the national economy employing the basic tactic of value control. Only by so doing can the microeconomy be invigorated and the objective of asserting macroeconomic control be achieved. A financial policy and a monetary policy which can be directly grasped in the hands of the state and can also directly regulate and control the state of the operations of value in the national economy are thus the principal measures for effecting the macroeconomic regulation and control of the national economy.

In essence, financial policy and monetary policy consist of various parameters of financial allocation and monetary supply determined by the state to control the operations of the national economy so that they will develop in the direction of total quantitative equilibrium and structural equilibrium. Broadly speaking, in our country, since the intermediate target of the monetary policy is to control the gross volume of credit and loans, the monetary policy may also be called the monetary, credit, and loan policy. In our country, the so-called coordination problem of financial policy and monetary policy is in reality a coordination problem of the three great policies of finance, credit and loans, and money.

Finance, credit and loans, and issuance of money are all found in the course of the movement of the production funds of society. The unified character of social funds and the nature of the reciprocal flow between the various sectors of the social funds impose an indivisible innate relationship on this triumvirate of finance, credit and loans, and currency issuance, making the changes of any one of the three parties draw along changes in the other remaining sectors and at the same time causing changes in the structure and total volume of total supply and total

demand in the national economy. If between the financial policy and monetary policy, no attention is paid to coordination, then this will generate collision between the functions of the two policies and confusion in regulation and news and information, thereby twisting the roles of the policies and harming the national economy. Mutual harmonious cooperation and coordination between the two policies constitute a big problem affecting the success or failure of macroeconomic control. But this kind of cooperation and coordination and the traditional concept stressing that finance and the banks must "wear the same pants" are essentially different from one another.

The cooperation and coordination of the roles of the financial policy and monetary policy must have the precondition of the three sectors of finance, credit and loans, and currency issuance being separately able to have their functions normally realized and realized through the realisation process of the three sectors. In deciding one and enforcing the financial policy and monetary policy, it is necessary to rigidly demarcate the limits of the functions of the three sectors of finance, credit and loans, and currency issuance, otherwise it will not be possible to have the roles of the financial policy and the monetary policy normally displayed and thereby the objective of macroeconomic control cannot be achieved. At the same time, "wearing the same pants" between finance and the banks is the product of the structure of bundling together financial funds, credit and loan funds, and currency issuance to let "everybody eat from the same big pot," and utterly confuses the different functions and different channels of financial funds, credit and loan funds, and the currency issue. If when financial funds are short the banks are depended upon to supplement and if when the banks' funds are insufficient the issuance of more banknotes is counted on, then this will greatly confuse the relationship between financial equilibrium and loan and credit equilibrium and it frequently may breed such conditions as the outward appearance of a balanced budget whereas in truth finance is in a deficit state, or despite the imbalance in credit and loans, funds may be shown to be plentiful, or credit inflation may bring about false revenue receipts in finance or financial deficits bring along the false inflation in credit and loan funds. It can thus be seen that the practice of finance and banks "wearing the same pants" not only does not help coordination between financial policy and monetary policy but also hampers the normal display of the functions of financial policy and monetary policy.

Financial policy and monetary policy are both formed by policy target and policy tactics. The so-called coordination between financial policies and monetary policies refers to the cooperation and coordination in the targets and tactics of these two policies in realizing the tasks of macroeconomic control. among them are included such contents as the unification of the general targets of the

policies, appropriate matching measures for the intermediary targets, coordination between the tactics and coordination between the intermediary targets and the tactics. Only when financial policies and monetary policies achieve coordination and are in line with the unified targets of these two big policies and suffer no conflicts in their roles, can the purpose of macroeconomic control be effectively realized.

Our country's financial policy and monetary policy comprise the two parts of policy of regulating gross volume and policy of regulating structure. Between the financial policy and the monetary policy coordination is necessary not only in the gross volume policy but also in the structural policy.

## **II. Hot Points in the Friction Between Financial Policy and Monetary Policy**

At present, in our country's financial policy and monetary policy there exist many kinds of friction and inadequacy, be it in the selection of the policy target or in the use of the policy tactics.

### **1. Conflicts in policy target.**

The basic tasks of current macroeconomic management are controlling the total demand and readjusting the structure which are also the common policy targets facing the financial policy and monetary policy. Hence, it is undoubtedly correct for both finance and the banks to choose a policy which tends to rigidity but with the rigidity still embracing certain laxity, the purpose of rigidity being to control demand and the purpose of alternate rigidity and laxity to readjust the structure. But there are many inadequacies and much uncoordination in the selection by the two big policies of their separate overall policy and the rigid-and-lax matching measures and targets of their structural policies. In the gross volume or overall policy the banks concretely convert the target of the policy of rigidity into control of the gross volume of credit and loan and in the policy of structure select a policy of rigidity but including certain laxity and concretely convert the target of the policy of laxity to "selecting the strong ones for support." In finance, the policy of rigidity but tending to laxity is selected in the policy on gross volume, financial credit is expanded, and the budget is a deficit one while as for the policy on the structure, a policy with alternate laxity and rigidity is selected, the target for rigidity is concretely converted into cutting down the outlay on production construction of a general nature and on consumption and the target for laxity is concretely converted into increasing the outlay for major construction projects. In the policy on gross volume, finance carries out a policy tending to laxity, expanding credit and increasing the overdraft while the banks adopt a policy tending to rigidity, tightening credit and controlling the volume of credit and loans. This loosening on the one hand and tightening on the other seem to pair up well. In reality in between them a serious non-coordination is under cover.

(1) Under the conditions of currency inflation, instability of commodity prices, and the appearance of a relatively large surplus distribution of the national income, particularly when the monetary policy's tightening force can only weaken the development, the practice of finance and the banks of adopting in the policy on gross volume a coordinating policy of laxity on one side and rigidity on the other cannot be said to be adequate and harmonious. Speaking from the standpoint of trend, in a given period the gross outlay of money is the product of the gross volume of money supply multiplied by the speed of the circulation of money. If social total supply and the circulation speed of money are fixed, then in reality the regulation of social total demand is a matter of control of the gross volume of money supply. Since money is supplied through credit and loans and there is an innate relationship between the formation and changes in credit and loan and the supply volume of money, banks should not be criticized for adopting control of the gross volume of credit and loans as the intermediary target to control gross demand. Only through greatly tightening and reducing the gross supply volume of credit and loans can we tighten money supply and stop currency inflation, thus stabilizing commodity prices. In order to fit in with the tightening of the monetary policy, finance can only adopt the target of balancing revenues and expenditures or the near equilibrium of revenues and expenditures with an appropriate surplus as left-over and only by so doing can the realization of the target of the monetary policy be ensured. Contrarily, if finance should adopt the expansionist policy of a deficit budget and expanding financial credit, then to a very large extent this will negate the role of the monetary policy of tightening credit, equalizing and lowering demand, and stabilizing the currency.

(2) Similarly, on the two sides of finance and the banks, they conflict with each other in the selection of the target for the policy on the structure. Finance, for the sake of readjusting the structure, adopts the policy for intermediary targets of tightening supplies to the ordinary construction projects and expanding supplies to the major construction projects, issues construction bonds for major projects, and levies collections on energy and communications major construction sinking funds, in the hope that ordinary construction projects may be cut down. In order to fit in with the realization of this policy target of finance, the banks generally should adopt the policy measures of supporting major construction and controlling loans to ordinary construction projects. However, the banks have adopted a standard policy of selecting the strong and giving them support, particularly giving outstanding support to projects which "require a short construction period and are not too costly but quickly completed." Undoubtedly the banks have a good reason for adopting this policy intermediary target, particularly from the standpoint of realizing the object of stabilizing currency value. Supporting the projects with the above-mentioned features can speed up improvement of supply and thereby helps in easing the strain and pressure from currency inflation and is in line with the

intermediary target of controlling the volume of credit and loans. Nevertheless, it runs counter to the demand of coordinating with the financial policy. In supporting projects with "short, cheap, and speedy" features the banks not only aggravate the short-term feature of the investment acts of construction units but also increase the inflation of ordinary construction and thereby negate the financial policy's role of regulating the structure.

## 2. Friction between the policy measures

Since for the sake of realizing the intermediary targets of their separate policies, finance and the banks have both adopted various kinds of policies and tactics, coordination between the tactics of the financial policy and monetary policy becomes more complex and complicated. It is difficult here to dissect and analyze each and every one of the various kinds of contradictions currently existing and we shall only mention a few important ones. Regarding the tactics employed by the financial policy and monetary policy in structural regulation, on the side of the banks, in order to select the best or the strong ones for support and realize the objective of pushing the development of the "short-cheap-quick" units they have adopted the policy of graduated interest rates, charging interest rates whereby the longer the loan repayment period the higher will be the interest rates. At the same time, in order to raise the utilization efficiency rate or loans and speed up the completion of projects under construction they have enforced the measure requiring quarterly payment of interest on loans even prior to the project's completion and being put into operation. On the side of finance, for the sake of encouraging the enterprises to use bank loans to actively engage in technological transformation to realize the target of structural readjustment, measures have been adopted calling for repayment of loans prior to paying taxes, treating the tax and profit payments in loan repayments as part of the enterprise's deliveries to the state and authorizing the retention as usual of the bonus funds for the staff members and workers and collective welfare funds of the enterprises. Viewed from the standpoint of each attempting to realize the intermediary target of their respective policies, adoption by finance and the banks separately of these measures is within reason, but seen from a combination of these measures of the two parties there are obviously certain contradictions: First, the measure of allowing "loan repayment before paying taxes" adopted by finance does play the role of encouraging the enterprises to make loans from banks and thus to actively undertake technological transformation, but "loan-repayment first before tax payment" is tantamount to the enterprise borrowing money and finance footing the bill of repayment and differs little from the practice of finance making non-compensatory appropriations. Besides, the enterprise incurs no actual responsibility regarding the loan risks and when compared with the non-compensatory financial appropriations this is more tasty than "everybody eating from the same big pot." In turn, this negates the role of the banks fixing various kinds of interest rates. Second, although the banks' various measures on the interest rate do seem, on the surface, to have played the role of pushing the enterprises to speed up their construction projects and put them in operation, yet the fact that the enterprises

must make interest payments before the projects are in actual operation and that by so doing the enterprises must draw upon their originally retained profits to meet the interest payments runs counter to the financial policy of allowing the enterprises to repay loans and to pay interest thereon from the newly increased profit earnings. Moreover, the stipulation that enterprises' loan repayments be treated as their usual remittances to the state makes the banks' various measures on the interest rate lose their urging-on role, not to mention the discouraging effects of edging out revenues of the state and adding to the financial difficulties. This obviously is also contrary to the objects of tightening credit and loans.

### 3. Hot points in the conflict between financial policy and monetary policy.

The non-coordination in policy targets and policy tactics between the current financial policy and monetary policy is many-sided, with the major contradiction being the provision related to "loan repayment prior to tax payment." It is the hot point of the many conflicts of the two policies. In essence, repayment of loan before payment of tax is only a changed form of financial non-compensatory appropriation and is a post-affair non-compensatory appropriation of funds with bank loans as the intermediary. This method enables the enterprise to autonomously obtain funds from the bank without bearing any responsibility for the risks of the loan and the use of the funds. And because of this the banks can follow the enterprises and enjoy the outcome with the risks borne by others. This state of the enterprises and the banks in the sphere of credit and loans "eating from the same big pot" at the expense of finance causes a bouncing phenomenon on this crucial point of the enterprise between the roles of the financial policy and monetary policy. Thus, when either finance or the banks attempt to impose the policy measures on the enterprises, it is hardly possible to truly engender any economic leverage effects on the enterprises. On the contrary, when the financial policy's role is applied to the enterprise, the role will bounce from the enterprise to the banks and when the monetary policy's role is applied to the enterprises, it will bounce from the enterprise to finance. For example, the banks' policy on interest rates is a sort of pressure exerted on the enterprise, but this pressure on the enterprise is relieved by the practice of loan-repayment before tax-payment and becomes a sort of pressure on finance. The measure on the part of finance to collect levies for the energy and communications major construction funds was originally intended to force the enterprise to cut down on ordinary investments but, due to the existence of the measure of loan-repayment before tax-payment, the enterprise can actually and in a non-compensatory manner obtain funds from the banks and thus with one hand handing over money and funds to finance the enterprise can with the other hand obtain compensation from the banks' credit and loan funds. By so doing, the role of finance in weakening the enterprises' inflation of their ordinary investments becomes a role of weakening and reducing the credit and loan funds.

The existence of this bouncing phenomenon in their policy enforcement on the part of finance and the banks thus causes various kinds of collision and non-coordination in the operations of the financial policy and monetary policy and also causes the roles of these two big policies to become twisted and ineffective.

### III. Causes of the Non-coordination Between the Policies

The causes of the difficult coordination between the financial policy and the monetary policy are many-sided, but the basic cause is that in macroeconomic management the pattern of the old structure has been maintained and this cannot fit in with employing the financial policy and the monetary policy to carry out macroeconomic control.

First, under the old macroeconomic management structure, the relationship between planning, finance and banks was that of master and subordinate. Planning issued orders to finance and the banks. The gross volume, structure, and framework of financial receipts and expenditures and credit and loan receipts and expenditures were directly fixed by the plan. Since no margin for autonomous increase or decrease was left to financial receipts and expenses and the credit and loan receipts and outlay of banks, it was difficult to follow the requirements of macroeconomic control to autonomously and flexibly increase or decrease the receipts and expenditures, or to readjust the policy measures, and naturally also difficult to achieve coordination between financial policy and monetary policy. In particular, when the scale of the plan is overly large and under the conditions that it exceeds the actual capacity to bear on the part of finance and the banks, with both finance and the banks finding it difficult to realize their own equilibrium and difficult to enforce their policies at will, how is it possible to effect coordination and cooperation between themselves? Hence, under the old macroeconomic structure it frequently happened that when the imbalance in the gross amount of the national economy became increasingly aggravated and the regulatory tasks of the financial policy and the monetary policy became increasingly heavier, due to the overly large scale of the plan having already strangled the scale of the financial receipts and expenditures and of the credit and loan funds receipts and expenditures, then the more contradictions would appear between the financial policy and the monetary policy and the greater would be the difficulties in coordination.

Next, under the old macroeconomic management structure, the triumvirate of finance, credit and loans, and money were bundled together in the relationship of "everybody eating from the same big pot." The features of such a relationship were: First, there was no demarcation of the duties and responsibilities of the three parties of finance, credit and loan, and money. Their functions were mixed. Finance infiltrated into the realm of the functions of the banks and credit and loans, the banks had to carry the duties and responsibilities of finance, banknote issuance was a tool employed by finance and the banks to make up for their insufficiency

in funds, and this was followed up by the issuance of banknotes bearing the functions of the state budget and the banks' credit and loans. Second, between finance and the banks there was no demarcation one from the other in the use of funds. Between them, they could reciprocally, as they wished, and without compensation, make use of each other's funds; the banks could actively and without compensation make use of the treasury deposits of finance; finance could actively and without compensation overdraw on their bank accounts; and both finance and banks could without limit resort to banknote issuance. Third, in the interflow of funds between finance and the banks there was no restrictive or governing mechanism. Be it finance making loans from the banks or the banks delivering of funds to finance, there were no legally fixed limits on the amounts, there was no legal procedure to follow, and much depended on each other's wishes. This state of affairs caused any policy changes in either finance or the banks to produce changes in the opposite direction in the receipts and expenditure of the opposite party. It rendered the two large policies not only unable to form a cohesive force in macroeconomic control but also to become a negative force hindering each other and interfering with each other. Thus, non-coordination between financial policy and monetary policy could hardly be avoided.

#### **IV. Counter-Measure of Forming a Coordinating Mechanism Between the Two Large Policies**

In view of the actual condition of the non-coordination between our country's financial policy and monetary policy and the causes for it, the key for solution of this problem of coordination between the financial policy and the monetary policy lies in reforming the macroeconomic management structure and reform the relationship between finance, banks, and planning.

1. In the relationship between finance, banks and planning, it is necessary to break the pattern of the old structure in which "planning fixes the plate, or scale, and finance and banks follow it and pay money accordingly" and establish a new structure which is reciprocally restrictive but separately independent in performing the functions and in carrying out macroeconomic control and removing the abnormal relationship of finance and the banks being subordinate to planning and between finance and the banks with the latter being subordinate to the former. Concretely speaking, finance and the banks have the autonomous power of formulating plans on receipts and expenditures and enforcing and implementing policies. In formulating the budget of revenues and expenditures and deciding on financial policies, finance is subservient only to the NPC and its Standing Committee and in the process of executing the budget approved by the NPC is responsible only to the Premier and has no obligation to carry out any amendments on reducing or increasing the budget items and demands for changing the financial policies which have not gone through the legal procedure. In its decisions on the plan on money supply and monetary policy, the central bank

suffers no intervention from any government department and is legally responsible for the volume of issuance of banknotes sanctioned by the NPC and its standing committee. Besides, it has the power of independently implementing the money policy. So-called reciprocally restricting is that in deciding on the revenues and expenditures we break the relationship in which under the old structure planning made the decision on finance and credit and loans whereas the latter could not restrict the former or change it to one in which planning only guides financial receipts and expenditures, loans and credit receipts, and expenditures, while finance and the banks play a counteracting role on planning. Concretely speaking, it is that the plan, as the macroeconomic blueprint of the development of the national economy, guides, restricts, and conditions the activities in receipts and expenditures of finance and the banks, and finance and the banks must take the targets of the overall balance of the national economy and structural readjustment advocated in the plan as the gross target of the common policy and, based thereon, compile the financial receipts and expenditures plan and the plan on money supply; on the other hand, finance and the banks have a counter-restrictive power on the plan, that is, when the financial plan and the money (including credit and loans) supply plan are not in coordination with the plan formulated by the State Planning Commission, the state commission's plan must be bound by the restrictions of the financial plan and the monetary plan and the State Planning Commission must readjust its plan accordingly. Only by so readjusting the relationship between finance, the banks and planning can the macroeconomic conditions be created for mutual readjustment between the financial policy and the monetary policy.

2. Regarding the relations of the banks and finance with the departments and regions at various levels, the executive power of the financial policy and monetary policy should be concentrated in the Ministry of Finance of the central government and the Central Bank, and the method of dividing the power of executing the policies between the departments or regions and then putting it into execution following a re-decision made by the departments or regions should not be adopted. Only in this way is it possible to incorporate the financial activities and credit activities of the departments and regions into the fold of the financial policy and monetary policy and thereby to separate the party doing the macroeconomic management work from the party under control and the party executing the policies from the party which is the objects of the functions of the policies. For a prolonged period a rather hazy concept has been found in the problem of macroeconomic control which seems to believe that macroeconomic control is microeconomic control, that is, control of the enterprises. If control of the enterprises is intended, naturally only through enforcing the policy of delegating power to the lower levels by departments or regions in accordance with the subordinate relationship of the enterprises can control be effectively realized. The enterprises' activities naturally should be controlled, but in the process of controlling the

conduct of the enterprises, the various departments and regions also pursue their own economic activities, are also prone to depart from the direction of macroeconomic equilibrium, and therefore likewise need to be controlled. The prime problem in macroeconomic control should be controlling the first layer of the macroeconomic activities, that is, controlling the total volume and the structure. The object of the functions of the financial policy and monetary policy should aim at inclusion in their fold of the activities of the departments and regions in the macroeconomic sector. Only thus can we protect the enforcement of the financial policy and monetary policy from being interfered with and twisted and can we eliminate the conflicts, otherwise these two large policies will be weakened and cannot perform their functions.

3. In the relations between finance and the banks, it is necessary to categorically remove the old relationship of "wearing the same pants," break the old structure of bundling together the three sectors of financial funds, loan and credit funds, and issuance of banknotes to make "everybody eat from the same big pot," and establish a new structure in which finance, credit and loans, and issuance of banknotes will each take its proper place, each perform its own duties, each bear its own responsibility, and all of them constrain and restrict each other.

On the side of finance: 1) It cannot at its own will get an overdraft from the banks without compensation or without any time limit. When and if an overdraft is needed, a definite legal procedure must be followed, the amount of the overdraft must be limited, interest must be paid thereon and the overdraft be repaid on schedule. So far as the central bank is concerned, when the finance department makes an overdraft from the central bank, it is equivalent to imposing on society an increase in basic money supply, tends to form credit inflation and inevitably will affect the normal working of the monetary policy. In particular, long-term and unlimited overdrafts will all the more severely impede the normal operations of the monetary policy. Hence, to ensure that the monetary policy can normally display its role, we must strictly restrict finance from making overdrafts from the central bank. 2) It cannot have the central bank underwrite its flotation of government bonds but can issue bonds and treasury notes to specialized banks and society at large. Having the central bank underwrite the flotation of bonds is tantamount to making an overdraft from the central bank and therefore must be eradicated. 3) It should no longer bear the responsibility of increasing the appropriation of credit and loan sinking funds to the banks. 4) It should exercise constraint over the central bank in the issuance of banknotes. In the event of the excessive issuance of banknotes, a tax on such issuance should be levied. When the central bank's banknote issuance exceeds the limit sanctioned by the NPC, it should every 10 days or every month collect from the bank an excessive banknote issuance tax at a high tax rate. The tax funds derived therefrom should not be treated as ordinary income but should be treated as

extradordinary income of a policy nature and be frozen so that when there has been a sufficient returned flow of notes to the bank the collected tax funds should be returned to the central bank. By so doing, the good point is that finance can display its supervisory role and help in timely restriction of currency inflation. 5) It should take part in the apportionment of the central bank's benefits. Besides collecting the income tax according to the income volume, it should collect a banknotes issuance earnings tax. Our country's renminbi maintains its value through the double measures of controlling the issuance volume and stabilizing commodity prices by financial means. Each year the finance department pays out a large amount of money to subsidize commodity prices and thus to stabilize the value of the yuan. To have a portion of the earnings from banknote issuance refunded to the Finance Ministry and thus to augment the country's financial strength is an absolutely necessary measure in stabilizing currency value and effectively putting the role of the monetary policy onto full play.

On the side of the banks: 1) The specialized banks should be commercialized. The interest policy is an important measure in the hands of the central bank in enforcing the monetary policy. If the specialized banks are not solely responsible for their own profits or losses and for the risks of loans, the interest rate can hardly play its role via-a-via the specialized banks and thereby this will influence the effects of the monetary policy. 2) The purpose of the central bank in providing credit and loans to the specialized banks is for enforcement of the monetary policy and should no longer include meeting the demand of the specialized banks for the supply of credit and loan funds. 3) The central bank should no longer be responsible for regulating and adjusting the credit and loan affairs of the various regions; in the event of imbalances in the credit and loan funds in the localities, the specialized banks in the localities should resolve the problem by means of the lateral merging of funds. In compiling the comprehensive loan and credit plan, the central bank aims only at fixing the monetary policy and should no longer play a mandatory role on the specialized banks. 4) The central bank has the power of refusing requests for overdrafts from finance, this to ensure that the monetary policy will not be adversely affected by the budget deficits. 5) As agent of the national treasury, the central bank should accept supervision and control from finance, must strictly abide by the methods specified in the treasury regulations in handling the treasury's receipts and payments, cannot autonomously and without compensation make use of the treasury funds, and when using them should have the consent of the Ministry of Finance, duly pay interest on them, and repay them according to schedule.

4. Establishing a mechanism to coordinate the policies between finance and the central bank and enforcing a coordinating policy. The decisionmaking mechanism should preferably be a prestigious commission jointly formed by finance, the banks, and the State Planning Commission.

5. Clearly specifying the tasks and division of work between finance and the central bank in macroeconomic control. Finance and the banks should take as their overall targets the maintenance of the social economy's sustained and stable growth, stabilizing currency value, stabilizing commodity prices, and expanding employment, that is, maintaining a quantitative balance and structural balance of the macroeconomy. Nevertheless, because of the different angles of the tactics used and the functions displayed in the macroeconomic regulation by finance and the banks, both of the parties have a different stance in taking up their macroeconomic regulatory tasks when enforcing the policy. Finance carries out the macroeconomic control and regulation through participating in the distribution of the national income and changing the budgetary receipts and expenditures, while the banks do so through regulating the volume of money supply. This determines that the strength of the monetary policy controlling total supply and total demand is greater than that of the financial role and that its role of controlling the structure is not so strong as that of finance. Whether or not a state of total demand exceeds total supply in the national economy, that is, the appearance of a surplus distribution of the national income, is directly determined by the state of money supply. The so-called surplus distribution of the national income is by no means a real surplus distribution of the national income. Rather, it refers to the results of the generation of false value in the course of the distribution of the national income. In other words, the surplus distribution of the national income is only a false increase in monetary receipts caused by this false value. In the national economy only finance and the banks can without any basis create these false monetary receipts. Finance through budget deficits and the banks through an excessive issuance of banknotes can create these fallacious monetary receipts. But finance, in the input of fabricated monetary receipts into the national income, must pass through the banks' excessive issuance of banknotes before it can be realized. In the event of the appearance of red figures in finance, there are only two sources of replenishment: one is to depend on the banks' credit supply and the other is to make loans from society. Under the conditions of the non-existence of a surplus distribution of the national income in realistic economy, raising loans from society undoubtedly is supported by material resources, represents real monetary receipts and hence will not lead to the surplus distribution of the national income. On the other hand, with regard to lending from the banks, if the banks have plentiful credit and loan funds or can correspondingly cut down their other loans, no surplus distribution of the national income can occur. Only when the banks do not have sufficient credit and loan funds and must resort to the excess issuance of banknotes can financial deficits lead to a surplus distribution of the national income. It can thus be seen that in the final analysis, imbalances in social total supply and total demand and appearance of the phenomenon of a surplus distribution of the national income may be attributed to input by the banks into the

national income of an excessive volume of money supply. Therefore, controlling money supply and realizing the overall balance of the macroeconomy should be the basic tasks of the monetary policy. As for distribution in finance, since it occupies the central position in the distribution of the national income, can directly affect the distribution structure and the direction of use of the national income, and can thereby affect the demand structure and the supply structure, the financial policy should take as its major responsibility control of the structure.

Finally, for the purpose of eliminating the hot points in the conflict between the current financial policy and monetary policy so as to more easily improve the coordination conditions between the policies, it is necessary to transform the policy of loan repayment before tax payment and enforce the policy of loan repayment after tax payment. As for how to change the policy of loan repayment before tax payment there is no consensus in people's opinions. Seen from current actual conditions, changing the policy of loan repayment before tax payment at one stroke is difficult. In my opinion, taking two steps would be better. The first step should be a transitional measure and the method of differential treatment should be employed. In the second step, a unified method of loan repayment after tax payment will be enforced and will then become standardized. At present, our country's state-run enterprises are facing the double tasks of catching up with the world's advanced technological level and speedily repaying the historical debts incurred in the renovation and transformation processes. Certain old enterprises have found it difficult to meet their loan-repayment needs purely through increasing the profit retentions and raising the depreciation rate. Moreover, since the enforcement of the measure of loan repayment before taxpayment, the enterprises have already formed a sizable amount of indebtedness which some of the enterprises are unable to clear by themselves. If the measure of loan repayment after tax payment is uniformly enforced, then inevitably it will bring along among the enterprises a new uneven distribution of joys and sorrows, and the tasks of renovation and transformation will be impeded. On the other hand, taking two steps can ease this contradiction and is helpful to realizing the enterprises' tasks of technical transformation. In the first step of the transitional method, the actual conditions of the enterprises' transformation tasks may be taken as the basis according to which the enterprises may be divided into A and B categories. Those with heavy transformation tasks will belong to the A category and the rest to the B category. A category will be subjected to the method of repaying their indebtedness principally by means of their own funds and any insufficiency will be subsidized by finance. Enterprises of the B category will repay their loans wholly by means of their own funds. For this purpose, finance should set up in the budget a special sinking fund to render aid to the enterprises in repaying their loans, specially for use in subsidizing the enterprises in repaying their loans. The authority to use the loan clearing sinking funds will be

vested in the financial departments which will examine the loans contracted for transformation projects by enterprises under the A category. If the necessity and effective nature of the projects are confirmed the subsidy amount will be fixed and when the enterprises repay the loans the subsidies will be paid accordingly. In the case of projects of an erroneous nature, no subsidy will be made and the enterprises and the banks will be left to jointly share the risks.

### **Yangtze Yields New Mineral Deposits**

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[Text] Beijing, January 3 (XINHUA)—Chinese geologists found four sites along the middle and lower reaches of the Yangtze rich in copper, sulphur, gold, silver and other minerals last year.

When fully developed, these can annually produce 61,000 tons of copper, 2.13 million tons of sulphur concentrate as well as a considerable amount of gold and silver, which China has to import, said officials at the Ministry of Geology and Mineral Resources today.

Reserves of these minerals in the four sites will be enough for mining for up to a century, said the officials, adding that for their discovery, the geologists were awarded a 1987 state special prize for science and technological progress.

## **SMALL-SCALE ENTERPRISES**

### **Suggested Reforms for Township Enterprises**

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[Article in "Forum" column: "Township Enterprises Should Also Implement Reform"]

[Text] Township enterprises should follow the reform initiative, and establish their own enterprise structure. Today, urban enterprises are undergoing reform, and township enterprises should take the lead rather than trail behind.

Township enterprises have their inherent merits. First, they are the product of market mechanisms. Second, they are more in tune with the masses. Township enterprises are an industry set up by the Chinese peasants themselves; this is truly unprecedented. They are not state-run industries but are industries run by the peasants themselves. It is extraordinary that peasants have developed a talent for industry. This is a great beginning. Then why is reform necessary? It is because township enterprises have some inherent flaws. They are set up in the township, and are heavily dependent on the local government. The township government assists with problem solving, helps with organization, raises funds

for enterprises, and helps them expand. A close relationship has already been established between them, and there is a need to separate the government from enterprises.

Township enterprises are special because they are industries; they form a market independent of the market for agricultural products. They compete with large industries. To successfully compete in the industrial market, they must adapt to the needs of that market. They must set their own pattern of development, and therefore they must regulate their own behavior, and they must be allowed to operate independently. If the development of large industries was hampered by all kinds of rigid rules and regulations, it is inevitable that similar problems will develop in township enterprises. They make up a small community with its own citizens. Therefore, the relationship between the township government and township enterprises must be adjusted to standardize the enterprises and give them independent status. Standardization refers mainly to financial standards. Township enterprises must support agriculture; they must pay for some local construction. But their share of financial responsibilities must be reasonable, and there must be rules and regulations governing the appropriations. Township enterprises must not be treated as "small cash registers" from which money can be taken at will. This is the first step.

Secondly, township enterprises must implement a contract responsibility system based on open bids in order to make them truly competitive. Whoever is more capable, whoever can run the business more efficiently, gets the contracts. Contractors should not be assigned by the party branch, nor appointed by the township head, nor selected by the incumbent, and the contract may go to the incumbent only if he submits a bid. All bids must guarantee not only profit but also appreciation of the value of the assets. In this way we hope to nurture a group of entrepreneurs. In the future, the Chinese cadre system must make its breakthrough here. We must separate the entrepreneurs and the managers from the ranks of the party and government cadres. We need a group of entrepreneurs who will be recognized by society, and duly rewarded, when they succeed, and who must step down if they fail — they will go back to being workers if they used to be workers, or teachers if they used to be teachers, and be restored to their old wage level. Entrepreneurs and party and government cadres should face different standards and requirements, and put under separate promotion and demotion systems.

Thirdly, township enterprises must break down regional boundaries, and expand lateral relationships. They may try the stockownership system, and convert township assets to common stocks so that the peasants can own stocks, and large enterprises in the cities may also buy shares. In this way, many township enterprises will be owned by the townships, the state, and by individuals. If they link up with the cities and build a relationship, they can escape the confines of a single village or a single

town. The most serious problem in township enterprises today is that we see new businesses still being started up while others in the same industry are shut down, and within the same city or county, too many people are in the same trade; one business opens in one area while another shuts down in another area. This is because people ignore economic returns and operate only to satisfy local needs. If I see that you have a factory, my village must have one too, otherwise I would be ashamed to show my face at town meetings. So I build a factory without even doing any studies. Whatever you build, I will build one too. One successful plant to process hawthorn berries leads to the setting up of dozens of similar plants, and the growers too decide to set up their own plants instead of supplying others with the berries. As a result when new plants are finished, we run out of raw materials. Why can't we have unity instead of this kind of redundancy? We must allow some businesses to declare bankruptcy, and we must allow some to merge.

Lastly, we must reform the wage and the financial systems. We cannot all implement the 8-grade wage system. When a plant makes a profit, the workers should be paid more; when a plant fails to make a profit, the workers work for nothing. Only by so doing will the system work. Township enterprises must have the kind of spirit that says, "we are run by the peasants; we are independent, and if we run into problems, we must forgo wages for now to maintain this plant." Nationwide, urban enterprises are undergoing reform. If we fail to improve township enterprises, we may be allowing their inherent defects to set in, and form a new system of "eating out of the same big pot." 12986

#### **Small-Scale Enterprise's Use of Retained Profits**

40060073a Nanchang JIANGXI RIBAO in Chinese  
20 Nov 87 p 1

[Article: "Survey of 107 Small- and Medium-sized Enterprises Shows that Improper Use of Retained Profits Affects Enterprises' Staying Power"]

[Text] Jiangxi's auditing department examined some 107 small- and medium-sized enterprises, and reviewed their distribution and utilization of retained profits between 1986 and the first half of 1987, and concluded that improper use of retained profits has adversely affected the staying power of these enterprises.

Based on studies, during the auditing period, total retained profits in the 107 enterprises amounted to 31.7 percent of total realized profits, and 56 percent of the retained profits were designated employee bonus and welfare funds, and 6.6 percent were designated energy and transportation construction funds; 9 percent were production related fund balance, and 28.4 percent were funds designated for actual production-oriented expenditures. In fact, many enterprises paid for energy and transportation construction out of their limited production funds rather than out of their employee bonus and welfare funds; some even took part of the production

funds to pay bonuses and benefits, or spent them on nonproductive construction, and others used the money indiscriminately for various fund-raising and apportionment. Figures show that less than 20 percent of the retained profits were used on actual production development.

Analyses show that these problems are attributable to the following factors:

1. Enterprises have increased distributions of bigger bonuses and better benefits. Some enterprises are concerned only with immediate gains, and use all kinds of excuses to spend a larger portion of their retained profits on consumption-type expenditures. Some simply "waste all, spend all, or distribute all" of their retained profits. Among the 107 enterprises audited, 5 spent all, and 8 spent more than 80 percent, of their retained profits on employee bonus and welfare payments; some bonus funds were badly overdrawn.
2. Enterprises blindly compete in awarding bonuses regardless of profitability. Some enterprises award tax-free bonuses equivalent to a minimum of 4 month's regular wages. Instead of competing to see who makes the most profit, or who contributes the most to the country, enterprises compete to see who hands out the most bonuses, or who has the best welfare program. The more they compete, the more bonuses they hand out.
3. Concocting various pretexts to give away awards, in money or in kind. Figures show that 61 out of the 107 enterprises, or 57 percent, have overdrawn their employee bonus funds. Under the account of employee welfare funds some enterprises have itemized expenses for uniforms, materials issued for holidays, meal subsidies, and subsidies for assembly to appraise new products, and so on. Because of the excessive award of money and gifts, some enterprises have failed to provide normal welfare items, and expenses such as janitorial fees and support for the only child have to be included in production costs.
4. Effects of arbitrary fund-raising and apportionment. Some industries and enterprises have had to use their meager production funds to pay for indiscriminate fund-raising and apportionment which have increased the burden of enterprises.

In view of the above problems, Jiangxi's auditing department has suggested that enterprises must rectify their guiding business ideology, and banish the incorrect notion of "preserving bonuses and benefits at the expense of production." They must observe economic and financial discipline, and ensure that an absolute majority of the retained profits are spent on developing production. They must distribute the retained profits proportionately among the five funds. Those enterprises

which have bungled their distributions must make readjustments. They must comply with the various instructions handed down by the State Council and the provisions set down by the provincial government which strictly prohibit arbitrary fund-raising and apportionment. 12986

### **Shaanxi Leader on Shortcomings of Township Enterprises**

*HK080211 Xian Shaanxi Provincial Service in Mandarin 0030 GMT8 Jan 88*

[Text] On 6 January, Mou Lingsheng, deputy secretary of the provincial party committee, held a discussion with 17 peasant entrepreneurs at Weinan City on developing township and town enterprises. During the meeting a number of well-known peasant entrepreneurs appealed to all sectors of society to correct the prejudice against township and town enterprises and allow these enterprises to take part in market competition in conditions of equality.

Comrade Mou Lingsheng earnestly listened to the views and suggestions of the entrepreneurs. He said: The leading cadres at all levels need to gain fresh understanding of the township and town enterprises. The entrepreneurs and the masses also need to do this.

He said: The development of the township and town enterprises represents a new creation under party leadership. We should view this issue from the inevitable trends of historical development. In recent years a large number of peasant entrepreneurs have come to the fore in Shaanxi. They have strong consciousness of reform and competition and great vitality, and are also skilled in management. Output value of the province's township and town enterprises last year reached 8.3 billion yuan, exceeding the agricultural output value for the first time. This could not have been achieved without the efforts of the peasant entrepreneurs.

On the main problems facing these enterprises, Mou Lingsheng said: The workers of many of these enterprises are peasants who have only just laid down their hoes; their cultural and technological levels are rather low; and the enterprises' equipment is rather backward. Patriarchal-style management is also in force in some of the enterprises.

He pointed out that township and town enterprises must arm themselves with science and technology, train their own technical forces, improve the quality of their workers, step up technological transformation, and reform their management methods so as to improve product quality and win through in the competition by producing quality goods.

### **Township's Industrial Hoax Uncovered** *HK261543 Hong Kong SOUTH CHINA MORNING POST in English 26 Jan 88p 1*

[Article by Marlowe Hood, in Beijing]

[Text] When an official from the Provincial Township and Rural Enterprise Bureau in Shanxi said after an inspection tour that Huang Zhuang township's industrial output was too low, the local leadership took the criticism to heart.

Adopting the spirit and techniques of the new economic reforms, they conducted a market survey to pinpoint shortages in the local economy.

They discovered a demand for bricks. To serve the booming construction industry, they set up a brick factory in record time.

It was a success, with profits doubling in 4 years. It became a model factory and the most profitable enterprise in the township—large enough to be registered in the National Economic Statistical Handbook.

There was only one problem: the factory did not exist.

The Huang Zhuang brick factory scandal, exposed by an enterprising local radio journalist, is a vivid reminder that some Chinese economic statistics must be consumed with a handful of salt and that the age-old practice of telling one's superiors whatever they want to hear is alive and well.

"You could call it a tradition: exaggerate the good news and minimise the bad," said a local historian.

What is most astounding in the Huang Zhuang brick factory case is the scope of the cover-up. Not only did the accountants create elaborate records—taxes paid, workers' salaries and bonuses, transport and energy costs, gross receipts and profits, and so on—everyone in the township was party to the fraud.

It did not end there. When the fictional brick factory's earnings passed 2.2 million yuan (about HK\$4.2 million) and accounted for 18.39 percent of the entire township's income, a district auditor came round to inspect the model factory.

There was, of course, nothing to see.

But instead of exposing the fake, district and township leaders got together and devised an elaborate scheme for slowly phasing the brick factory out of business.

They decided to siphon off real profits from other enterprises, on the one hand, while putting the brick factory—on paper—into the red, on the other.

The plan fell apart when a newly-appointed township leader refused to play along. "What are we going to do with our industrial inheritance?" he asked rhetorically at a meeting of local officials.

The Huang Zhuang brick factory was shut down in December. It is, however, still in the statistical year-books.

### **Domestic Retail Sales Market Booming**

*OW060451 Beijing XINHUA in English  
1041 GMT5 Jan 88*

[Text] Beijing, January 5 (XINHUA)—Retail sales boomed in China last year, "ECONOMIC INFORMATION" reported today.

National sales might total 582 billion yuan (157 billion U.S. dollars), 17.6 percent — 9.6 percent in constant prices — higher than the previous year, the paper said quoting a spokesman of the state statistics bureau.

Consumer goods would account for 511.5 billion yuan (138.2 billion U.S. dollars), up 16.9 percent from 1986.

The figures were based on statistics in the first 11 months and estimates for December, the spokesman explained.

Increases were registered in every commercial sector, whether state, collective or individual, the spokesman said.

Sales by individual traders were 24.2 percent higher over the year and reached 99.98 billion yuan (27 billion U.S. dollars).

Improved supplies in the countryside led to an anticipated 60 billion yuan (16.2 billion U.S. dollars) increase in sales in rural areas.

There were record outputs of coal, crude oil, motor vehicles, tractors and raw and semi-finished materials during the year, the spokesman said.

But, he said, supplies of some agricultural and sideline products and daily-use consumer goods fell short of demand causing prices to rise.

It will be an arduous task to maintain the boom this year, he said.

### **Shanghai Reports Growth in Exports**

*OW070353 Beijing XINHUA in English  
1540 GMT6 Jan 88*

[Text] Shanghai, January 6 (XINHUA)—The Shanghai Port, China's leading foreign trade port, handled exports worth a total of 4,158 million U.S. dollars in 1987, up 16 percent over 1986.

This was still behind the previous peak year, 1980, when the port's export volume climbed to 4,266 million U.S. dollars, according to official statistics reaching XINHUA today.

Nevertheless, last year's growth indicates that the port has recovered from a recession that lasted from 1981 to 1986, port officials told XINHUA.

For decades in the past, the officials said, the port was the sole export outlet for the east and central parts of China and, as such, handled exports from these areas fixed according to mandatory planning by the central government.

But in recent years [words indistinct] has designated other ports to handle exports as well, and this has affected the export volume of the Shanghai Port.

Goods from other parts of China used to furnish 40 percent of the port's annual export volume. But the figure was reduced a few years ago to 20 percent as the port was too slow to adapt to the changed situation, the officials explained.

Last year, however, the ratio of non-Shanghai goods handled by the port rose to 30 percent. This, the officials said, indicates the port's success in expanding its cooperation with Chinese and foreign-funded firms throughout China.

The officials also called attention to the fact that Shanghai goods handled by the port in 1987 were valued at 3,000 million U.S. dollars—only 200 million U.S. dollars more than in 1986.

"The potential of large and medium-sized enterprises in the city is yet to be fully tapped through the current reforms," one official said. "And when it is there should be a further surge of exports handled by the port."

### **Reform of Foreign Trade System Boosts Liaoning Exports**

*OW041310 Beijing XINHUA in English  
1151 GMT4 Jan 88*

[Text] Shenyang, January 4 (XINHUA)—A number of larger enterprises in Liaoning Province are now empowered to directly negotiate with foreign business firms, according to a provincial official here today.

In the past, the state foreign trade companies had a monopoly of foreign trade, the official said.

Zhao Feng, president of the Northeast General Pharmaceutical Factory, said, "Reforms have provided an opportunity for us factory directors to display our talents."

To better sell products abroad, this China's largest organic synthesis pharmaceutical factory formed an import and export company consisting of 20 professional workers and set up an agency in Hamburg — the world's medicine collection and distributing center — in 1987. It has also invited more than 50 firms from the United States, the Federal Republic of Germany and Hong Kong to hold trade talks in Shenyang, the provincial capital.

As a result, the factory has doubled its annual export value to 30 million U.S. dollars.

The 56-year-old director has visited a dozen countries and imported key equipment for the production of glucose and vitamin C. "An American firm is asking to sell our products abroad on contract," the director said.

According to Huang Chun, director of the Dalian No. 7 oil refinery, since his refinery set up an international trade company not long ago it has exchanged information and held trade talks with more than 100 companies from 26 countries and regions.

His refinery produced and sold 2,500 tons of paraffin wax on the international market within half a month of offering the materials last year. "Such efficiency could not be achieved without self-management power," he said.

Agreeing with Huang, Gong Zhenyi, an official of the Liaoyang Chemical Fiber Company, said, "As we can directly make contact with customers abroad by telex, we have speeded up our trade transactions."

The official said the Liaoning provincial government will further encourage enterprises with high technical and managerial levels to apply for self-management in foreign trade to directly sell goods on the international market.

### **New Rules Ease Foreign Investment in Fuzhou**

OW041324 Beijing XINHUA in English  
1157 GMT4 Jan 88

[Text] Fuzhou, January 4 (XINHUA)—New regulations have been issued here to attract foreign firms to the Fuzhou Economic Zone and reward those recommending foreign-funded projects.

Under the regulations, export-oriented enterprises built in the zone before 1990 are exempt site use fees for ten years.

The zone in this capital of Fujian Province has 16 enterprises in operation, half of them funded by overseas firms. The foreign investments have totalled 118 million yuan (about 30 million U.S. dollars), 70 percent of the total in the zone.

The regulations allow enterprises to retain 90 percent of their hard currency earned before 1990 with the remainder going to the zone authorities for development purposes.

The new rules permit enterprises to repay fixed asset loans with before-tax profits and let them draw one percent of the newly-increased sales volume as a fund for technological upgrading and new product development.

The enterprises are exempt import duties, product taxes or value-added taxes on imported machinery, motor vehicles, raw materials, fuel, accessories and parts used for production of export goods.

Neither do they have to pay export duties or value-added taxes if they export their own goods.

The regulations reward any person, Chinese or foreigner, or organization, research institutes, colleges and mass organizations, that recommends foreign-funded projects that prove to be successful.

The reward is a bonus equal to one-thousandth of the amount of foreign investment.

### **Shaanxi Offers Foreign Investors Preferential Treatment**

OW042321 Beijing XINHUA in English  
1255 GMT4 Jan 88

[Text] Xian, January 4 (XINHUA)—The Shaanxi Provincial Government has issued a set of regulations to encourage foreign investment, XINHUA learned today.

Preferential terms are offered especially to foreign-funded enterprises producing export goods or using advanced technology, a Shaanxi official said.

Such enterprises will be exempted from site utilization fees for 90 percent of the contracted period if they have paid development fees or developed their own construction sites.

As to non-export-oriented or less advanced enterprises, the site utilization fee will be exempted for 50 percent of the contracted period.

Export-oriented enterprises with advanced technology that have a cooperation period with China for less than 10 years will be exempted from local income tax for 5 years, while those with a cooperation period over 10 years will enjoy 2 more tax-free years.

According to the regulations, goods needed by the foreign-funded enterprises, if already included in the state plan, will be provided on a basis equal to that of state-owned Chinese enterprises and will be sold at the same price.

The regulations require the province's prefectures and cities to set up special goods-supply companies for the convenience of foreign-funded enterprises.

The regulations say that indiscriminate fee collecting is forbidden and the enterprise has the right to ignore unreasonable fees.

To simplify approval procedures, all project proposals should be answered within 1 month. The same goes for enterprise contracts and constitutions. As to feasibility reports, the time limit is 2 months.

XINHUA also learned that the Shaanxi Provincial Government has formed a committee in charge of the work concerning foreign investment with Vice Governor Zhang Bin as its head.

### **Mainland-Hong Kong Joint Steel Venture Planned**

*OW290559 Beijing XINHUA in English  
092 GMT27 Jan 88*

[Text] Jinan, January 27 (XINHUA)—A steel plant designed to produce 300,000 tons of steel a year using electric furnaces is to be built in Yantai, Shandong Province, jointly by mainland and Hong Kong companies, a local official said today.

It will be the first joint steel venture between the Chinese mainland and overseas companies.

To be located in the open coastal city's economic and technological development zone, the plant will cover the total production process, including continuous casting and rolling. The annual outputs of rolled steel and billets are expected to be 120,000 and 174,000 tons, respectively.

The investment is estimated at more than 70 million U.S. dollars.

### **Trade, Technical Cooperation With Peru To Expand**

*HK290430 Beijing CHINA DAILY in English  
29 Jan 88 p 2*

[By staff reporter Qu Yingpu]

[Text] China and Peru have agreed to expand their economic relations by increasing trade and technical co-operation, said Peruvian Foreign Minister Allan Wagner Tizon, who concluded a three-day visit to China yesterday.

During his talks with senior Chinese officials, Wagner, the first foreign minister from Peru ever to visit China, suggested the two countries co-operate in mining, metallurgy and fisheries.

Among the \$1 billion worth of co-operative projects Wagner brought with him to China was an agreement with the China Metallurgical Construction Corporation on iron mining. He did not give any details. Both sides also reached agreement on a letter of intent on fishing.

Wagner also signed a scientific and technological co-operation agreement with Song Jian, State Councillor in charge of the State Science and Technology commission.

Wagner said the projects also included \$450 million for copper mining and processing, \$250 million for iron mining, and \$200 million for fishing co-operative projects.

Previously, China provided a 17 million sterling pound loan to Peru to drill wells in the country's mountainous Andes area for irrigation.

Wagner also talked with Chinese Minister of Foreign Economic Relations and Trade Zheng Tubin on longer-term economic co-operation.

Last year the two countries' bilateral trade reached nearly \$100 million. The figure for 1986 was \$96 million.

Shu Yunxiang, an official of the ministry, said the two countries' trade had been developing quickly since they established diplomatic relations in 1972. Before that, the bilateral trade volume averaged only several tens of thousands of U.S. dollars every year. The figure for the next several years averaged close to \$100 million, hitting a record high of \$115 million in 1980. China's exports that year amounted to \$11 million while its imports were \$104 million.

China's main exports to Peru are electronics. Its imports include copper, iron and other minerals and fish meal, used as food for livestock.

Shu said China had had a big trade deficit with Peru. During the first 11 months of last year, China's import value reached \$77 million, but its export value was only \$22 million.

He said the gap was the result of China's large demand for fish meal and minerals, while Peru lacked foreign currency to buy more Chinese products.

He said China did not expect an even balance, but hoped both countries would try to import more from the other in order to enlarge the total bilateral trade volume. He hoped Peru would import more agricultural machinery and paraffin wax from China.

Since both countries have a problem with a shortage of foreign currency, they should open other channels such as barter trade, compensation trade and co-operation on processing projects, Shu said.

Last year China bartered \$30 million worth of rice in exchange for fish meal from Peru.

Shu said he was optimistic about the bilateral trade between China and Peru because both countries had a lot of products that the other country needed.

Peru ranks sixth in volume of trade among the 19 Latin American countries that have diplomatic relations with China.

## ECONOMIC ZONES

**Fujian To Extend Economic Development Zone**  
*HK291509 Beijing ZHONGGUO XINWEN SHE in Chinese 1347 GMT 28 Jan 88*

[Report by Li Jie (2621 2212): "State Council Approves Extension of Fujian's Coastal Economic Development Zone"]

[Text] Fuzhou, 28 Jan (ZHONGGUO XINWEN SHE)—Fujian Province, which missed many good opportunities for development in the past, has now a very good opportunity for accelerating its economic development. Recently the State Council has approved the extension of the Southern Fujian Economic Development Zone. Thus, the number of counties (districts) in the economic development zone has increased from 11 to 30, and the entire coastal area from Fuzhou in the north to Zhangzhou in the south has become an area to be opened to the outside world.

The new counties (districts) to be included in the economic development zone are: Putian city (including the Chengxiang district and the Hanjiang district) and Putian and Xianyou counties under its jurisdiction, Dehua County under the jurisdiction of Quanzhou City, Zhaoan, Yunxiao, Nanjing, Changtai, Pinghe, and Huaan counties under the jurisdiction of Zhangzhou City, and Minhou, Changle, Fuqing, Lianjiang, Pingtan, Mingqing, Luoyuan, and Yongtai counties under the jurisdiction of Fuzhou City. There are abundant and cheap manpower resources in these coastal areas, which can be used to develop labor-intensive industries and the export-oriented economy. The raw materials they need will mainly come from abroad, and their products are also to be sold abroad. They will thus join the great international economic circle with the Asia-Pacific Region as the center.

The State Council pointed out that the relevant preferential policies for the Zhujiang Delta, the Changjiang Delta, and the Southern-Fujian Delta will also be applicable to the coastal economic development zone of Fujian Province.

**Guangdong Designates Further Open Zones**  
*OW060355 Beijing XINHUA in English 1101 GMT 5 Jan 88*

[Text] Beijing, January 5 (XINHUA)—South China's Guangdong Province has designated more coastal counties as open economic zones. "PEOPLE'S DAILY" reported today.

The 18 newly designated "open" counties are situated in the cities of Shantou, Jiangmen, Maoming and Zhanjiang, and Huiyang region.

Prior to this, the provincial government has enlarged the Pearl River Delta Open Economic Zone from 17 to 28 counties and cities.

To develop the economy, increase exports and attract foreign investment, the provincial government has given these open areas special policies and preferential treatment.

The government has also urged the localities to build industrial and agricultural bases and set up key industrial satellite towns in developing an export-oriented economy.

**Construction Turning Haikou into 'Hawaii of Orient'**  
*OW050921 Beijing XINHUA in English 0630 GMT 5 Jan 88*

[XINHUA: " 'Hawaii of Orient'—Vast Building Site"]

[Text] Haikou, January 5 (XINHUA)—The speeding trucks, towering cranes and roaring bulldozers that are turning Hainan Island into a colossal construction site reflect the local authorities' enthusiasm about an impending boom in foreign investment. "CHINA DAILY" reported today.

Construction is now mainly centered on power stations, a new railway, a telecommunications center, waterworks and an airport.

In Haikou, construction of the island's largest thermal power plant is in full swing. During the first phase of construction, a 100,000-kilowatt generating unit will be built; it is expected to go into operation in September. Construction will start soon on a 250,000-kilowatt generating unit, the project's second phase, which will go into operation by 1990.

Construction of the Daguangba power station, also in Haikou, will begin this year. The first phase of construction will be completed in 1991.

A 50,000-kilowatt power station will be built in Sanya City in the southern part of the island, while natural gas from the Beibu Bay will be piped into the city this year as a new energy source.

At Yangpu port, which will be turned into the island's major chemical product center, a thermal power plant with a planned capacity of 500,000 kilowatts is being designed, and construction work will begin in 1992.

Hainan also plans to build a nuclear power plant with a generating capacity of 300,000 kilowatts.

When all these projects are completed, the island will have a total generating capacity of two million kilowatts, almost 10 times its current capacity.

Meanwhile, a new railway linking Sanya to Haikou will soon be built to improve the island's passenger and freight transport. Geological surveys for the railway are under way. The 33,000-square-kilometer island has only one railway at present, running from Sanya to the border of Changjiang County.

A new airport will be built in Sanya, which will be turned into an international winter resort. The central government in Beijing has already given the go-ahead for the airport, and construction will begin this year.

To assuage Hainan's water shortage, a waterworks is being built in Haikou with the capacity to supply 150,000 tons of water a day, while a new reservoir will be built in Sanya.

And it is expected that Haikou will become the first city in China with automatic-dialing service available to all Chinese provincial capitals and major international cities when its telecommunications center is completed next year.

"We have to create a satisfactory environment for foreign investors as soon as possible because they are already pouring in," said a high local official.

According to the official, the island had signed contracts with foreign firms for a total investment of 318 million U.S. dollars by the end of 1987, and hundreds of foreign delegations have visited the island since September to seek investment opportunities. The delegations have come from Hong Kong, the United States, Britain, Japan, France, Switzerland, Canada, Singapore, Austria, Yugoslavia, Jordan and the Philippines.

"People are not exaggerating when they describe our island as 'the Hawaii of the Orient.' We have to admit, however, that ours is still a sleeping beauty," the official said.

#### **Jiangsu Port City Seeking To Expand**

*OW292000 Beijing XINHUA in  
English 1301 GMT 27 Jan 88*

[Text] Nanjing, January 27 (XINHUA)—Lianyungang, one of China's 14 open coastal cities in East China's Jiangsu Province, is planning to develop into a large port city, according to the city mayor, Wang Wenqing.

Wang told XINHUA that the city, now one of the country's eight leading seaports, is expected to be enlarged into a multi-functional port with a prospective loading and unloading capacity of more than 100 million tons.

By the end of this century, he said, it will have expanded from the present 18 berths handling 20 million tons of goods to 50 berths capable of moving 50 million tons.

This is part of an ambitious plan for the city's future development under the principle of "turning it into a big port, a big city and a continental 'land bridge' between Asia and Europe," Wang said.

Wang Wenqing, 43, and a graduate of the Chinese University of Science and Technology, said the development plan is based on the city's geographic and economic advantages and on implementation of China's policy of opening to the world.

To help in the development drive, the city will utilize its natural resources to develop industry. Construction of a large soda ash project with an annual production of 600,000 tons is now under way.

Central government departments are also making feasibility studies on several projects which are expected to turn out 3 million tons of steel, 300,000 tons of synthetic ammonia and 300,000 cars, as well as a power plant with a generating capacity of 2.4 million kw.

This is the east terminal of the Lianyungang-Lanzhou-Urumqi railway, which runs from China's east to its far northwest. Urumqi is the capital of the Xinjiang Uygur autonomous region.

When an additional line, now under construction, is completed between Urumqi and the Soviet Union, trains will be able to reach Rotterdam in the Netherlands from Lianyungang, thus "linking" the Asian and European continents.

Wang said the open policy will "help quicken our pace in meeting the goal."

In the past four years since it started opening to foreign investment, technology and trade, Lianyungang has achieved an average annual increase of 25 percent in total non-industrial output value. Foreign trade has also increased by an average of 30 percent annually.

To date, the city has established economic and technological ties with more than 20 countries and regions, including the United States, Federal Germany, Italy, Japan, Australia, Hong Kong and Macao, he said.

In the future, Wang said the city will continue and attempt to expand upon its cooperation with foreign countries.

This year, city authorities plan to establish trade ties with the cities of New York, Tokyo and Paris, as well as open a garment mill in the Republic of Trinidad and Tobago.

Furthermore, Wang Wenqing said Lianyungang will improve its investment conditions by offering more preferential treatment to foreign investors.

**Shekou GNP \$5,300 Per Capita in 1987**  
*OW232010 Beijing XINHUA in English*  
0827 GMT 23 Jan 88

[Text] Beijing, January 23 (XINHUA)—The gross national product (GNP) of the Shekou industrial district in the Shenzhen Special Economic Zone averaged 5,300 U.S. dollars per person last year.

Jiang Bo, general manager of the China Steam Merchants Navigation Company, Ltd., just announced the figure at a national communication bureau directors meeting.

In 1986, Jiang said, the district's GNP averaged 5,000 U.S. dollars per person.

The company started developing the district independently in 1979, which became China's first export-oriented industrial district ever run by an enterprise.

Covering 8.22 square kilometers, the district has fully developed 3.06 square kilometers by constructing buildings with a combined floor space of 1.5 million square meters.

After 8 years of development, Jiang said, the district has signed 284 contracts, of which 75 percent are foreign-funded projects involving investments of 3.2 billion Hong Kong dollars (410 million U.S. dollars).

"Most of the district's foreign-funded enterprises are doing well," Jiang said, adding the investment is coming from more than 20 countries and regions including Britain, the United States, France, Japan, Denmark, Thailand, Singapore, and Hong Kong.

To date, the district boasts 90 plants in operation, which generated 1.28 billion yuan (346 million U.S. dollars) in industrial output value last year, or 54.2 percent more than in 1986.

Jiang accredited the success to the state's issuance of a series of special policies specifically for the district and the country's ongoing reform.

The district now has a new system of bidding on capital construction, better factory director responsibility systems, and improved personnel and housing plans.

**SEZ Trial Measures Governing Land Auctions**  
*40060059 Hong Kong WEN WEI PO*  
in Chinese 17, 18 Nov 87

["Shenzhen's Trial Measures Governing Land Auctions"]

[17 Nov 87 p 24]

[Text] Chapter 1: General Principles

Article 1: The Shenzhen SEZ Trial Measures Governing Land Auctions have been drawn up to improve land economics, to provide social and environmental benefits, to ensure that land auction work is conducted smoothly and to protect the just rights and interests of units or persons bidding for the right to use land.

Article 2: All auctions of land-use rights throughout the SEZ shall be conducted in accordance with these trial measures.

Article 3: The Land Auction Team of the Shenzhen City Office for the Reform of the Land Management System shall bear responsibility for handling all land auctions within the SEZ. The functions of the Land Auction Team shall be to draw up auction documents, to determine what land shall be auctioned, to examine bidder qualifications, to preside over the opening and evaluation of bids and the determination of winning bids, and to notify bid winners.

The Land Auction Team shall be comprised of a chief, an assistant chief and a number of members and, where necessary, may invite relevant experts to participate in its work.

Article 4: All enterprises in the SEZ empowered to develop real estate and all economic organizations or individual businessmen approved by the Land Auction Team may participate in land auctions.

Chapter 2: Bid Solicitation

Article 5: Land shall opened for bidding for a specified period of time, units or individuals meeting specified qualifications may compete for the right to develop a specified piece of land by submitting written bids, and the Land Auction Team shall determine and select the best bid.

Bids shall consist of such elements as determined by the Land Auction Team and may require only a bid price or may require a detailed development plan as well as a bid price.

Article 6: Where detailed development plans are required, in addition to land on which infrastructural projects (hooking up water and power supplies, road construction and site leveling) have been completed, land not so prepared may also be opened for bidding.

Article 7: Minimum bid prices shall be established for land auctions. These prices shall be drawn up, written down and retained by the Land Auction Team and be kept strictly secret prior to the unsealing of the bids received.

Article 8: Bids may be taken in two forms. The first is open bidding, which involves bid solicitation through newspaper, radio or television advertisement. The second form is bidding by special invitation. Under this form, the Land Auction Team sends auction documents to units meeting specified qualifications.

Article 9: The Land Auction Team shall prepare the following documents.

1. Instructions for bidders 2. Bid forms 3. Shenzhen SEZ land use contracts 4. Land use regulations

### Chapter 3: Bid Submission

Article 10: Units submitting bids shall carefully read the auction documents, fill in their land bids in accordance with the Instructions for Bidders and complete all preparations required to participate in the auctions.

Article 11: Bids must be stamped with the seals of the enterprise and its responsible members, sealed up and deposited by the due date in special boxes placed in designated places. Once deposited in these boxes, bids may not be removed and changed. If bidders desire to change their bids before the closing date, they may submit a revised bid, whereupon the original bids shall become null and void.

Article 12: Bidders shall bear responsibility for paying all fees incurred in preparing bids.

[18 Nov 87 p 28]

### [Text]Chapter 4: Bidding Procedure

Article 13: Land auctions shall proceed in the following order. 1. Preparation of auction documents.

2. Determination of the qualifications required for participation in bidding.

3. Announcing the auction.

4. Enterprises purchase auction documents.

5. The Land Auction Team answers bidders' questions.

6. Bids are filled in, sealed and placed in bid boxes, and a deposit is paid by the specified time.

7. Bids are opened and examined in public. Those bids that are not properly filled out in accordance with specified guidelines shall publicly be pronounced invalid.

8. Bids are evaluated, and winning bids are determined. Bid winners and losers shall be notified in writing of their statuses.

9. Bid winners must sign land use contracts with the city government within 15 days of the date on which they receive notification that their bids have been selected.

10. In accordance with regulation, bid winners must register with and obtain land use certificates from the city's land management departments.

Article 14: The Land Auction Team shall assemble bidders and relevant members of the community to participate in the opening of bids. At these events, bids shall be opened in public, and prices tendered by each bidder shall be announced publicly.

Lawyers or notaries may be invited to supervise the opening of bids.

Article 15: In general, the period from the distribution of auction documents to the opening of bids shall not exceed 3 months, and the period from the opening of bids to the determination of bid winners shall not exceed 30 days.

Article 16: The Land Auction Team must conduct a full appraisal of each bid and plan received. In general, where only bid prices are required, bids tendering the highest price shall be selected. Where both bid prices and development plans are required, the Land Auction Team must conduct a composite evaluation—taking into account such factors as price; development plan; enterprise qualification, reputation and reliability—and select the bid earning the highest overall evaluation. However, the Land Auction Team is authorized to reject all bids if it, on the basis of its evaluation, determines that none of the bids is suitable.

### Chapter 5: Rewards and Penalties

Article 17: Rewards shall be granted to all units or individuals who make important contributions in land auction work.

Article 18: Rewards shall be granted to all persons who render important assistance in exposing cases of bribery, fraud, deception, favoritism or other irregularities or illegal acts committed by bidders or Land Auction Team members.

Article 19: The Office for the Reform of the Land Management System shall declare null and void any winning bid found to have been selected through fraud, deception, bribery or other illegal act. City supervisory departments shall apply administrative punishment to any person directly responsible for such acts, and judicial organs shall investigate and affix responsibility in all serious cases involving crimes.

Article 20: Members of the Land Auction Team must be impartial and fair. City supervisory departments shall apply administrative punishment to any team members who are found in the course of their duties to have received gifts, accepted bribes, leaked secrets, colluded with bidders, practiced favoritism or engaged in other irregularities. And judicial organs shall investigate and affix responsibility in all serious, criminal cases constituting involving team members.

#### Chapter 6: Supplementary Provisions

Article 21: The Shenzhen City Leading Group for Real Estate Reform shall be responsible for interpreting and explaining these Trial Measures.

Article 22: These Trial Measures shall go into effect on 14 November 1987.

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#### **Xiamen Enterprises Begin To Make Profit**

*OW042311 Beijing XINHUA in English  
1058 GMT4 Jan 88*

[Text] Xiamen, January 4 (XINHUA)—Enterprises in Xiamen's Special Economic Zone made a 60 million yuan profit last year reversing the trend of the previous year when they chalked up losses of the same amount.

A local official said their industrial output value and foreign exchange income have also doubled over the previous year.

Altogether 33 foreign-funded enterprises went into operation in Xiamen last year bringing the total to 183 and obtaining 35 million U.S. dollars of foreign exchange for the city.

There were 292 foreign investment projects with pledges of 1 billion U.S. dollars approved by the city to the end of last year.

#### **Shenzhen Vice Mayor on 1987 Economic Progress**

*OW011906 Beijing XINHUA in English  
1304 GMT1 Jan 88*

[Text] Shenzhen, January 1 (XINHUA)—Shenzhen, one of China's four special economic zones, exceeded all its targets last year, according to Zhou Xiwu, vice-mayor of the city.

The city's total industrial output value was estimated at 5.7 billion yuan (about 1.54 billion U.S. dollars) last year; its financial revenue was 798 million yuan (216 million U.S. dollars); total volume of retail sales 3.2 billion yuan (865 million U.S. dollars); exports 1.2 billion U.S. dollars; and foreign exchange earnings 1.44 billion U.S. dollars.

Zhou said a total of 1,726,000 tourists including 697,000 foreigners visited Shenzhen in the first 11 months of last year, an increase of one-third over the same period the previous year.

Nearly 90 percent of all new agreements signed last year involving an element of foreign investment were in industry, the vice-mayor said. And most of those are expected to produce export-oriented products.

Shenzhen's total agricultural output value last year was estimated at 300 million yuan, up 20 percent over 1986.

Zhou said the city has increased investment in industrial and foreign-trade oriented projects, streamlined administration, strengthened the banking sector and set up a city investment administration company, all of which contributed to the increase in industrial output and exports. Nearly 70 percent of enterprises in Shenzhen have adopted the contract responsibility system.

While optimistic about last year's achievements, the vice-mayor said there was still room for improvement. He said the investment environment is still not fully suited to the export-oriented economy and work efficiency could still be raised.

#### **New Chinese Financial Daily To Begin 20 Jan**

*HK010156 Hong Kong SOUTH CHINA MORNING  
POST in English 1 Jan 88p4*

[Text] A New Chinese-language financial newspaper will hit the streets on January 20, the editor-in-chief of the HONGKONG ECONOMIC TIMES, Mr Lawrence Fung Shiu-po, said yesterday.

Mr Fung, whose company Adsale People Limited will publish the daily, also said political developments in the territory and China would not compromise press freedom or the independence of news agencies in the runup to 1997.

He denied rumours yesterday that the new venture involved Chinese equity or other forms of support.

"We are not a China-backed newspaper. We value our independence and if we have any prejudice it will be in the interests of the Hong Kong people," he said.

Mr Fung said he believed there was great demand in the business community for more financial information and forward-looking analyses by newspapers.

"Our emphasis is business services promotion.

"The preference built into the paper will be prosperity, growth, low inflation and full employment in the territory. Everything we do will be towards fulfilling these objectives," said Mr Fung.

The newspaper has a capital base of \$40 million and is funded by Adsale, a trade promotion company specializing in exhibition and advertising services. Its directors, most of them local and overseas-trained Hong Kong residents in their forties, are expecting to break even in three to five years.

Mr Michael Wong Yeung-lit, former editor of the HONGKONG FINANCIAL TIMES, has been appointed deputy editor and Mr G.A. Pilgrim, former deputy chairman of the SOUTH CHINA MORNING POST, is the newspaper's publishing consultant.

Mr Fung said the HONGKONG ECONOMIC TIMES' 100-strong staff had been recruited largely from the various news organisations in the territory.

Hong Kong University researcher Mr Thomas Chan Man-hung will be a regular columnist for the paper.

## AGRICULTURE

### National Water Resources Law Enacted

OW011029 Beijing XINHUA Domestic Service in Chinese 0730 GMT 22 Jan 88

[Text] Beijing, 22 Jan (XINHUA)—Water Law of the People's Republic of China

Adopted at the 24th meeting of the 6th NPC Standing Committee on 21 January 1988

#### Chapter 1: General Principles

Article 1: This law is formulated to rationally exploit, utilize, and protect water resources; prevent and control floods; and make full use of the comprehensive benefits of water resources in order to meet the requirements of the developing national economy and the needs of the people in daily life.

Article 2: Water resources as used in this law refers to surface and ground water. This law shall be observed in exploiting, utilizing, protecting, or managing water resources and preventing and controlling floods within the territory of the People's Republic of China.

Stipulations on the exploitation, utilization, protection, and management of sea water shall be formulated separately.

Article 3: Water resources are owned by the state, that is, by the whole people.

Water of ponds and reservoirs of rural collective economic organizations is collectively owned.

The state protects the legitimate rights and interests of units and individuals that exploit and utilize water resources according to law.

Article 4: The state encourages and supports undertakings that exploit and utilize water resources or prevent and control floods.

In exploiting and utilizing water resources, it is necessary to make overall plans and take all factors into consideration, to make multipurpose use of such resources, to stress beneficial results, and to bring the functions of these resources into full play.

Article 5: The state protects water resources and adopts effective measures to protect natural vegetation, to plant trees and grass to conserve water, to prevent soil erosion, and to improve the ecological environment.

Article 6: All units should step up their work in preventing and treating water pollution and protect and improve the quality of water. People's governments at all levels should strengthen their supervision and management of the prevention and treatment of water pollution in accordance with the law governing the prevention and treatment of water pollution.

Article 7: The state shall use water in a planned and economical way.

People's governments at all levels should strengthen their management in conserving water. All units should adopt advanced technology to conserve water, to reduce water consumption, and to increase its recycled rate.

Article 8: People's governments at various levels should reward units and individuals for their remarkable achievements in exploiting, utilizing, protecting, or managing water resources, preventing or controlling floods, economizing on water, or doing relevant scientific and technological research.

Article 9: The state shall institute a system under which water resources are managed in a unified way and are also managed at various levels and by various departments.

The Water Administration Department under the State Council shall be responsible for the unified management of water resources across the country.

In light of their division of work and responsibilities, other concerned departments under the State Council shall work in coordination with the Water Administration Department to manage relevant water resources.

Water administration and other concerned departments under local people's governments at or above the county level are responsible for the management of relevant water resources according to their division of work and responsibilities.

#### Chapter 2: Exploitation and Utilization

Article 10: Comprehensive scientific surveys, investigations and assessments shall be made before exploiting and utilizing water resources. Comprehensive surveys, investigations, and assessments of water resources across the country shall be conducted in a unified manner by the Water Administration Department under the State Council in coordination with other departments concerned.

Article 11: Unified plans shall be made for the exploitation and utilization of water resources and for the prevention and control of floods in various river basins and regions. Such plans are divided into comprehensive and special ones.

Comprehensive plans for major river basins shall be made by the Water Administration Department under the State Council in coordination with concerned departments as well as concerned provinces, autonomous regions, or municipalities directly under the central government, and they shall be reported to the State Council for approval. Comprehensive plans for other river basins or regions shall be worked out by water administration departments under local people's governments at or above the county level in coordination with concerned departments and areas, and they shall be reported to the people's government at the corresponding level for approval and to the water administration department at a higher level for the record. Comprehensive plans shall take the needs of various areas and industries into consideration and shall be brought into line with other planning.

Special projects concerning flood control, waterlogging prevention, irrigation, navigation, water supply in urban and industrial zones, hydroelectricity, floating of bamboo and logs, fishery, preservation of water quality, hydrographic testing, subterranean water surveys, and water movement monitoring shall be drawn up by relevant authorities of county-level or higher people's governments, and reported to the people's governments of the same level for approval.

Projects that have been approved shall serve as the basis for developing and utilizing water resources and preventing water calamities. Revision of the projects shall have the concurrence of organs that approve them.

Article 12: No units or individuals shall jeopardize public interests or any other people's legitimate rights and interests while diverting, storing, or draining water.

Article 13: To give full scope to the combined benefits of water resources, the development and utilization of water resources shall be subordinated to the general plan for flood control, and they shall follow the principle of promoting what is beneficial and abolishing what is harmful, taking into account the interests of people living on the upper and lower reaches of a river as well as its banks.

Article 14: In developing and utilizing water resources, primary consideration shall be given to satisfying the water needs of people in urban and rural areas, and then to the needs of agriculture, industry, and navigation. In areas where there are water shortages, efforts shall be made to control the size of cities and the development of industrial and agricultural projects which consume large quantities of water.

Article 15: To ensure steady and high agricultural output, all localities shall develop irrigation, drainage, and other water conservancy projects on the basis of the locally available water resources.

Areas with water shortages shall adopt water-conserving irrigation measures.

Areas susceptible to alkalization or water logging shall take measures to control and lower the subterranean water level.

Article 16: The state shall encourage the development and utilization of water resources. Efforts shall be made to carry out planned, multipurpose, and stage-by-stage development of rivers with abundant water resources.

Construction of hydroelectric power stations shall give consideration to ecological protection, as well as to the needs of flood control, water supply, irrigation, navigation, the floating of bamboo and logs, and fishery.

Article 17: The state shall protect and encourage the development of resources for waterborne transportation. While building a permanent dam across a navigable river that can accommodate the floating of bamboo and logs, the constructing unit shall also build facilities that can accommodate the passage of ships and logs; or, after having had the approval of State Council-authorized departments, take other remedial measures. The unit shall also take proper measures to ensure shipping and log-floating operations during the construction and water-storing periods. The necessary expenses shall be borne by the unit.

When a constructing unit builds a dam on an unnavigable river or artificial channel to make it navigable, it shall also build facilities or reserve spaces for ship use. The money needed shall be borne by communications departments, except for those which the state has prescribed otherwise.

As for the existing dams which obstruct navigation, people's governments at county level or above shall instruct the original constructing units to take remedial measures within a prescribed period.

Article 18: When a constructing unit builds a dam across a channel by which fish, shrimps, and crabs migrate, thus seriously affecting the fishery resources, the constructing unit shall build facilities to accommodate the migration, or take other remedial measures.

Article 19: The construction of dams, bridges, piers, and other facilities that cross, span, or are located by a river, and the laying of pipelines or cables across a river, shall meet the state-prescribed standards for flood control and navigation, as well as other relevant technical requirements.

A construction unit which expands, remodels, dismantles, or damages the existing projects because of building the facilities listed in the previous paragraph shall bear the necessary expenses for expanding and remodeling the facilities, as well as the necessary expenses for recompensation for the damages, except for those facilities which are illegally built.

Article 20: If a construction unit which, while undertaking a water project or other construction projects, causes disadvantageous effects to the existing water for irrigation, water supply sources, or water volume of navigable channels, the construction unit shall take remedial measures or compensate for the problems caused.

Article 21: To guard against any disadvantageous effects to the ecology, overall planning and scientific feasibility studies shall be conducted prior to the construction of an interregional water diversion project, and consideration shall be given to the needs of all basins into which water is induced, or from which water is diverted.

Article 22: A water project shall be built in accordance with state-prescribed procedures for capital construction and other relevant regulations. Whenever a project involves the interests of other regions or trades, the constructing unit shall solicit the views of the relevant regions and departments in advance and, according to regulations, report the project to a higher people's government or the relevant authorities for examination.

Article 23: Should a state-sponsored water project require relocation of people, the livelihood and production of the relocated people shall be properly taken care of by the local people's government. The budget required for the resettlement of the relocated people shall be incorporated into the investment plan, and the relocation and resettlement shall be accomplished by stages according to the construction plan.

### Chapter 3: Protection of Water, Water Basins, and Water Projects

Article 24: Nothing that impedes the flow of floodwater or navigation shall be abandoned or piled up in rivers, lakes, dams, or water channels; and no trees or high-stalk crops that impede floodwater shall be grown there.

No sunken ships shall be abandoned in water channels, nor shall fishing gear be deployed or aquatic plants be grown there.

Without the approval of competent authorities, no buildings shall be built in river beds or on river banks.

The mining of sand, pebbles, or alluvial gold in areas adjacent to a river course or channel for floodwater and draining excessive water shall be reported to competent authorities in charge of the waterways for approval. Mining shall proceed in a manner and within the areas as approved. Any operation involving the river course shall be approved by authorities in charge of the river course along with authorities in charge of the channel.

Article 25: The development of subterranean water shall proceed according to centralized planning and strong supervision on the basis of investigations and appraisals of the water resources. In areas where subterranean water has been excessively tapped, the development shall be strictly controlled. Measures shall also be taken to protect subterranean water resources and guard against cave-ins of the land surface.

Article 26: When water drainage operations conducted by a mining or construction unit during the process of developing underground mineral deposits or building an underground construction project cause a lowering or depletion of subterranean water, or a cave-in, or cause living inconveniences or production losses to other units or individuals, the mining or constructing unit shall take remedial measures and compensate for the losses.

Article 27: Reclamation of cropland from lake areas is prohibited. Enclosing and reclaiming riverbanks is also prohibited, but if the reclamation is essential, it must have been scientifically and approved by a provincial or a higher-level people's government.

Article 28: The state shall protect all water projects, embankments, bank revetments, and related facilities, as well as facilities for monitoring hydrographical or hydrographic-geological information, and for facilitating navigation; and no units or individuals shall encroach upon or destroy these facilities.

Article 29: According to their approved designs, state-owned water projects fall within the scope of administration and protection of county or higher-level people's government according to state regulations.

Areas of protection for collectively-owned water projects shall be delimited according to regulations drawn up by various provincial, autonomous regional, and municipal people's governments.

Within the areas of protection for water projects, activities which jeopardize the safety of these projects, such as detonation, sinking wells, quarrying, and excavating earth, are prohibited.

Article 30: Long-term national, as well as interprovincial, interregional, and intermunicipal projects of water supply and demand shall be drawn up by the Water Administration Department under the State Council along with other relevant departments, and reported to

the planning departments of the State Council for examination. Long-term local plans of water supply and demand shall be drawn up by water administration departments under county-level or higher people's government according to the local situation, and reported to the planning departments of people's governments of the same level for examination.

Article 31: The regulation of runoffs and distribution of water shall take into consideration the water needs of people living in the upper and lower reaches of the river and its banks, as well as the needs in navigation, floating of bamboo and logs, fishery, and ecological preservation.

Interregional water distribution plans shall be drawn up by the water administrative authorities under the next higher people's government on the basis of soliciting the views of the relevant local people's governments. The plans shall be implemented after they have been reported to and approved by the people's governments of the same level.

Article 32: The state shall institute the system of licensing direct tapping of water from underground, or from rivers and lakes. Licensing is not required for tapping small quantities of water for household use and for livestock drinking water.

The licensing steps, scopes, and measures shall be drawn up by the State Council.

Article 33: When a newly built, expansion, or remodeling project requires a license for tapping water, the constructing unit shall, when submitting the construction designs, enclose the written views of the organ that examines and approves water-tapping requests.

Article 34: Water from a water supply unit must be paid for by the users according to relevant regulations.

A water resource fee will be charged for water directly drawn from underground sources in cities. The provincial, autonomous regional, or municipal people's government will decide on water resource charges for water directly drawn from underground sources or rivers and lakes.

Regulations for levying water or water resource fees will be formulated by the State Council.

Article 35: Regional water disputes shall be settled in the spirit of mutual understanding, unity, and cooperation by means of consultation. When no agreement is reached through mutual consultation, the dispute will be handled by the next higher people's government. Before a water dispute is settled, no side shall be allowed to unilaterally build water drainage, damming, diverting, or storage facilities or change the current water status within a

certain area on either side of the state-designated boundary line unless previously agreed upon by all parties involved or approved by the people's government at the next higher level.

Article 36: Water disputes between units, between individuals, or between units and individuals should be settled by means of consultation or mediation. If a litigant party, or parties, does not want to settle the dispute through consultation or mediation, or when consultation or mediation has failed to reach an agreement, the parties involved may either request the people's government at or above the county level or a government-authorized department to settle the dispute, or bring a lawsuit against the other party at a people's court. If a party, or parties, refuses to accept a ruling by the people's government or its authorized agency, either side may bring a suit against the other at a people's court within 15 days of the reception of the official ruling.

Before a water dispute is settled, neither party may change the current status of the water.

Article 37: In handling a water dispute case, a people's government at or above the county level or its authorized department has the authority to adopt temporary measures, which must be observed by the parties involved.

#### Chapter 5: Prevention of High Water and Floods

Article 38: People's governments at all levels must strengthen their leadership and take preventive measures against high water and floods. All units and individuals have the obligation to participate in high water and flood prevention.

Article 39: Flood prevention headquarters at and above the county level are responsible for unified direction of the prevention of high water and floods.

Under emergency conditions, a flood prevention center has the authority to commandeer whatever material, equipment, and manpower they need within their jurisdiction. Afterwards, all commandeered material, equipment, or manpower must be returned to the owner or owners, and the owners must be compensated for any loss or damage.

Article 40: People's governments at and above the county level should formulate flood prevention plans and set flood prevention standards and measures in accordance with local drainage plans. Flood prevention plans for the nation's principal rivers will be formulated by the Central Flood Prevention Headquarters and reported to the State Council for approval.

A flood prevention plan, once formulated and approved, should be implemented by the local people's government concerned.

Article 41: All use of land and various construction projects in river courses covered by flood prevention planning and in retention basins or flood storage areas must meet the requirements on flood prevention.

Article 42: Down-river areas should not dam up water or reduce the discharge capacity of rivers on which flooding or waterlogging capacities have been designed in accordance with their natural discharge or flood and waterlogging prevention projects. The upriver regions also should not enlarge these rivers' flood-discharge capacities without proper authorization.

Article 43: Under emergency conditions, flood prevention headquarters at all levels may take flood diverting or flood retardation measures based on approved diversion or retardation plans. When such measures threaten the safety of neighboring regions, they should be reported to the next higher level flood prevention headquarters for approval. The regions affected should be notified in advance.

The State Council and the various provincial, autonomous regional, and municipal governments should formulate special regulations concerning the safety, relocation, livelihood, production, rehabilitation, and compensation for losses of residents in the flood retardation and flood storage areas under their respective jurisdictions.

#### Chapter 6: Legal Responsibilities

Article 44: Illegal drawing, damming, blocking, and draining of water and other violations of this law should be stopped, and inconveniences and losses caused to other people by these violations should be compensated.

Article 45: Anyone who commits any of the following violations of this law shall be ordered by the department in charge of water management or other departments concerned at or above the county level to stop the violation, remove the obstacles, or take other remedial measures. Violators may also be fined. The party or parties responsible for the violation shall be subjected to discipline sanctions by the unit to which they belong, or by the higher level authorities.

1. Discarding or stacking objects or planting trees and tall-stalk crops in rivers, lakes, reservoirs, or canals that block the discharge of flood or navigation; abandoning sunken ships, setting fishing nets, or planting aquatic plants in navigable channels;

2. Erecting buildings on riverbeds or river banks without authorization;

3. Extracting sand or rocks or mining placer gold without proper authorization, or in areas and by methods not approved by the authorities in river courses or navigable channels; or

4. Violating Article 27 of this law by reclaiming cropland from lakes or rivers.

Article 46: Anyone violating any of the following stipulations of this law shall be ordered to stop the violation, take remedial measures, or be fined by the department of the local people's government in charge of water or by other responsible departments concerned. The person or persons responsible for the violation shall be given discipline sanctions by the units where the person or persons work, or by a higher level organ. When a violation constitutes a crime, the parties responsible shall be investigated for criminal responsibility:

1. Engaging in construction of water projects or realignment of navigable channels or river courses without proper authorization; or

2. Violating Article 42 of this law by expanding the discharge of floodwater or waterlogging downriver without proper authorization.

Article 47: Anyone violating any of the following stipulations of this law shall be ordered to stop the violation, pay for losses, and take remedial measures, or be fined by the department in charge of water or other responsible departments concerned at or above the county government level. Violations that come under public security shall be handled in accordance with the penalty regulations governing public security. Violations that constitute a crime shall be investigated for criminal responsibilities.

1. Destruction or damaging water projects, embankments, bank revetments, and other facilities; or flood prevention, hydrological monitoring and surveying, navigation, auxiliary navigational, or other installations;

2. Demolition, well-drilling, rock and earth extraction, or other work in protected areas around water projects that endanger the safety of water projects.

Article 48: When a discipline sanction is deemed unacceptable, the party or parties involved may appeal to the next higher level organ of the organ which originally handed down the sanction, for reconsideration within 15 days of receiving of the notice of sanction. If the decision made after the reconsideration is still deemed unacceptable, the party or parties involved may bring a suit against the other party or parties at a people's court with 15 days of receiving the notice of the decision. They may also directly sue the other party or parties within 15 days of receiving the original notice of sanction. When the party or parties involved fail to appeal for reconsideration or bring a suit against the other party or parties within the stipulated time limit and yet fail to honor the decision on a penalty, the organ which made the original decision on a penalty may request the people's court to enforce the penalty.

Those who find the penalty unacceptable shall be handled according to regulations for controlling public offenses.

Article 49: Whoever steals or robs flood-control materials or wet project equipment, embezzles or misappropriates the state's cash or materials for emergency relief work, flood control, and resettlement of relocated people shall have their criminal responsibilities investigated according to the criminal law.

Article 50: If personnel of water affairs departments and other competent authorities, as well as water engineering administrative units, neglect their duties, abuse their authority, or bend the law for personal interests, they shall be subjected to disciplinary measures meted out by their units or higher authorities. Those who have caused the public major property losses, or who have caused great losses to the interests of the state and the people, shall have their criminal responsibilities investigated according to the criminal law.

#### Chapter 7: Supplementary Articles

Article 51: If stipulations in international treaties and accords relevant to international or boundary rivers and lakes, to which China is a signatory, are different from those prescribed in the laws of China, the stipulations of international treaties and accords shall prevail, except for those articles and clauses for which China has stated its reservations.

Article 52: The State Council may draw up implementation rules according to this law.

Standing committees of people's congress of various provinces, autonomous regions, and municipalities directly under the central government may draw up implementation measures in accordance with this law.

Article 53: This law becomes effective on 1 July 1988.

#### Hebei Farm Machine Industry Figures Reported

40060127e Shijiazhuang HEBEI RIBAO in Chinese  
11 Jan 88 p 1

[Excerpt] In 1987 the output value of the farm machine industry in Hebei Province was 940 million yuan, a 20 percent increase over 1986. Net sales of farm machines totaled 940 million yuan, a 30 percent increase over 1986.

#### Hunan Cotton Area, Output

40060127d Changsha HUNAN RIBAO in Chinese  
24 Dec 87 p 2

[Excerpts] The cotton area in Hunan Province has dropped from 2,690,000 mu in 1980 to 800,000 mu in 1987 and output has dropped from more than 2 million dan in 1980 to 800,000 dan in 1987. The provincial textile industry needs 2,710,000 dan of cotton, but the province can only provide 45 percent of this amount. It is estimated that in 1988 Hunan will only provide 400,000 dan of cotton to the textile industry and 2 million dan will have to be transferred from other provinces.

#### Hunan Sugarcane Output

40060127c Changsha HUNAN JINGJI XINXI BAO in Chinese  
15 Dec 87 p 1

[Excerpt] In 1987, the area sown to sugarcane in Hunan Province was only 346,800 mu, nearly 20 percent less than 1986. It is estimated that sugarcane output will decrease from 1,662,400 tons in 1986 to 1,294,400 tons in 1987. Reasons for the decline are that sugarcane procurement prices are too low, and many counties have increased the area sown to ramie. In 1988, Hunan will need more than 350,000 tons of sugar, but the state plans to supply only 150,000 tons.

#### Yunnan Agricultural Investment

40060127b Kunming YUNNAN RIBAO in Chinese  
25 Dec 87 p 1

[Excerpt] In 1988, Yunnan Province will provide 41,220,000 yuan in funds to support the development of grain and tobacco production. In addition, 17,720,000 yuan in funds will be allocated to underdeveloped areas.

**Satellite Communications System Certified**  
*OW261327 Beijing XINHUA Domestic Service in  
Chinese 1349 GMT 23 Jan 88*

[By Reporters Sun Xiaozhen and Xu Keqi]

[Text] Nanjing, 23 Jan (XINHUA)— A small, truck-carried satellite communications system passed technical appraisal in Nanjing today.

In addition to its principal communications functions of a fixed satellite ground station, the most distinguishing feature of this small satellite communications system is

its mobility. All the equipment can be carried by a truck and four persons can set it up and put it into operation in 1 hour. Requiring little power, it can transmit, via a communications satellite, facsimile, teletype, telegram, and voice code telephone transmissions to another ground station. The quality of transmission is good and the facsimile picture is clear. It also possesses strong anti-interference capacity.

The communications system was jointly developed by a communications research institute and factory under the PLA General Staff Headquarters and local scientific and technological research units.

**Taiwan Population Reported at Over 19.6 Million**  
*OW091301 Taipei CNA in English 1028 GMT9 Jan 88*

[Text] Taipei, Jan. 9 (CNA)—Interior Minister Wu Poh-hsiung yesterday said the population of the Taiwan area at the end of December 1987 totaled about 19.656 million.

Wu said that Taipei County's population was the largest, amounting to more than 2.79 million. According to Wu, it is estimated that one of every three people born in Taiwan is born in Taipei County. He suggested that it would be necessary to restructure the Taipei County government to enable it to govern so many people well.

Wu also announced that the birthrate in Taiwan for 1987 was reduced to 1.119 percent, already achieving the government's goal of reducing the rate to less than 1.25 percent by 1989.

**Indirect Trade With PRC Exceeds U.S. \$1 Billion**  
*OW101324 Taipei CHINA POST in English 5 Jan 88p 12*

[Text] Two-way trade between Taiwan and mainland China via Hong Kong broke the US\$ 1 billion mark last year, according to a survey by Taipei's Chunghwa Institute for Economic Research.

The institute said Taiwan exported about US\$960 million worth of products to mainland China through the British colony in the first 10 months of 1987, up 53 percent from the same period of 1986.

Taiwan's so-called "indirect imports" from the mainland surged 107 percent to US\$240 million in the same period, it said.

**Uncounted Trade**

Informed sources said millions of dollars in undocumented illegal trade has been conducted by fishermen from both sides of the Taiwan Strait.

Due to the continued appreciation of the New Taiwan dollar and rising labor costs here, a growing number of small- and medium-size enterprises have moved their production lines to mainland China, ignoring the government's call for upgrading production in Taiwan through high value-added goods.

According to the Taiwan Shoe Industry Association, more than 50 local shoe manufacturers stopped work or closed down completely from January to September,

**'Disappearing Shoemakers'**

More than 10 others "simply disappeared," the association said, adding that after investigations, these manufacturers were discovered to have had set up factories on the mainland.

The Taiwan Toy Manufacturers' Association revealed that four of its members have put their production onto the mainland.

Many Taiwan manufacturers are taking the opportunity of a liberalization of a ban on visiting mainland relatives to tap the investment climate there, a potential market of one billion people.

Although the Communist regime does not want an influx of "traditional" industrial production such as shoes and textiles, from Taiwan, the mainland authorities give preferential treatment to attract Taiwan investment and lure Taiwanese expertise.

**Herbs for Electronics**

The institute said the mainland sells mainly medicinal herbs, food and raw materials to Taiwan, while Taiwan in turn sells mainland China light industrial and electronic products and building materials.

Despite growth in the Taiwan-mainland trade, Economics Minister T.H. Lee said the task at hand is for local businessmen to upgrade quality and develop high-tech products.

He said local industry should not overemphasize short-term interests in the mainland market and blindly engage in mainland trade.

The minister admitted that the mainland's low labor costs may help Taiwan manufacturers sharpen export competitiveness. But, he said industrial production on the mainland is of low quality.

**Potential Competitor**

Moreover, Lee said, increasing investment on the mainland a competitor for Taiwan eventually. [as received]

**Statistics Show Trade Imbalance Improved**  
*OW020527 Taipei CNA in English 0346 GMT2 Jan 88*

[Text] Taipei, Jan. 2 (CNA)—The Republic of China's imports from the United States soared to 91.3 percent in November, more than triple its export growth rate of 24.9 percent to that market, a ranking economics official reported Thursday.

Meanwhile, the official said, the nation's exports to Japan grew an impressive 53.8 percent in November, compared with a 34.1 percent increase in imports from that country.

Chao Yao-tung, chairman of the Council for Economic Planning and Development, said in a weekly cabinet meeting that these figures indicate the nation's chronic trade imbalance has started to gradually improve. He reported that the nation's foreign trade reached a record U.S. dollar 8.85 billion in November, with exports of \$5.18 billion and imports of \$3.67 billion, both single month records.

Chao attributed the November rise in trade volume in part to Typhoon Lynn which delayed many late October shipments. He noted that industrial production declined significantly in November and that export orders placed with local manufacturers also decreased, indicating that the impact of the New Taiwan dollar's sharp appreciation against the U.S. dollar has begun to surface.

**Bank of Communications 'Flexing Its Muscles'**  
*HK080913 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 8 Jan 88p 1*

[by Eva To]

[Text] The Hong Kong branch of the Bank of Communications, a member of the Bank of China group, is ambitiously flexing its muscles in investment banking as the year opens.

Fund management and general asset management, among other investment banking services, are key areas of emphasis in the bank's strategy this year, according to assistant general manager, Tang Yu-lap.

The Hong Kong branch—banking on its experience and exposure to the international financial market—will also be stepping up exchange and co-ordination with its head office in Shanghai last year and has re-established or started branch operations throughout China since then.

Once a major banking group in China but dormant since 1949, the Bank of Communications reopened its head office in Shanghai last year and has re-established or started branch operations throughout China since then.

Eight branches are now operating and more are expected to follow, especially along the coast.

According to Mr Tang, the latest move in investment banking was partly prompted by the increasing popularity of new debt financing techniques and the increasing competition in traditional commercial banking.

To meet surging demand for investment banking services, Mr Tang said, the Hong Kong branch would reorganise and further expand its operational structure. Starting this week, the bank's treasury department will be upgraded and expanded to a new and much larger entity—the investment banking department.

The new department is organised around five functional groups. They are:

—Treasury, dealing with foreign exchange and money market trading as well as margin trading.

—Capital Markets, with a primary market dealing in new issues and underwriting and a secondary market handling securities, options, swaps, futures and other instruments of financial trading.

—Fund Management will provide provident fund management for corporations and asset/liquidity management for private and institutional clients.

—Institutional Banking to promote the bank's products to institutional clients and to monitor credit exposure to institutions.

—Settlements, providing operational support to the whole department.

With China Development Finance (Hong Kong)—the Bank of China's merchant banking subsidiary—and Nanyang Commercial Bank, the Bank of Communications was among the most active of the Bank of China group's 14 member banks in investment banking.

In the past two years, its Hong Kong branch has been an active participant in Hong Kong's capital market in the underwriting and managing of new issues.

The bank itself has floated three CD issues, two in Hong Kong dollars and one in U.S. dollars, in the past two years.

According to Mr Tang, more than 10 officers from various branches of the Bank of Communications group in China had been seconded to the Hong Kong Branch for short-term training and exchange sessions last year.

Similar programs are expected to continue, he said.

Mr Tang said while the Hong Kong branch would strive to retain its competitive position in the local market, it would continue to deploy its relative advantages in Hong Kong to serve other branches of the group in China. More investment products and asset management services would be introduced this year, said Mr Tang, including the launch of three funds denominated in Australian dollars, New Zealand dollars and a multi-currency portfolio.

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