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Political Culture in 'Transitional Stage'

40050319 Shanghai FUDAN XUEBAO [FUDAN JOURNAL] in Chinese No 3, 10 May 88 pp 55-64

[Article by Wang Huning [3769 3337 1337]: "Structure of Chinese Political Culture in Transition"]

[Excerpts] During the transition of Chinese political culture, the old elements are disappearing or should be disappearing while new elements are being created. This transitional stage has its own characteristics, and the most basic one is that the value system, as the core of political culture, also goes through the process of eliminating the old and welcoming the new. The old elements are rejected, while new ones are being created. The general features of Chinese political culture in transition are as follows: 1) High political sensibility. This is the result of long nurturing. Statistics of a poll has shown that 94.22 percent of the participating citizens agree with the saying that "everyone has his share of responsibility for the fate of his country"; 54.14 percent are proud of living in a socialist country; while 74.95 percent and 85.65 percent voice their disagreement with these two statements respectively: "If the state disappoints you, you have reason not to love it"; and "if the state disappoints you, you have reason to rebel against it." These answers show people's warm "love of country." 2) Low political acceptance. Despite their high political ideology, the people's acceptance of the political structure and the political value system is low, because these two elements are in the process of transformation. This situation is illustrated in Tables 3 and 4. Those who believe in the need to reform the political structure account for 72 percent in Table 3 and 66 percent in Table 4. Table 5 shows people's views on political leadership, and the acceptance level is not high. Here is something contradictory: despite their high political sensibility as a result of long nurturing, the people do not find much acceptable. This contradiction can serve to explain many phenomena including some impetuosity and recklessness in political psychology. These phenomena are unavoidable during a transitional period. The main thing for us to do is to fully understand them in order to accelerate the transition in political culture. 3) Inadequate political knowledge. Political knowledge refers to the knowledge of political power, political system, political standards, political functions, and so forth. Since political culture itself is in transition, strictly scientific political knowledge is still in its embryo stage. Therefore, inadequate political knowledge now is understandable. Another reason is that old political knowledge is no longer suitable, and still another reason is that the standard of political socialization is low as shown in Table 6. From this table, we can see that while 75.15 percent of the people know what a constitution is, only 1.6 percent understand it thoroughly. The same situation exists in other areas. This is obviously unfavorable for the development of political cultural, and even for political development. 4) Political apathy, meaning people's indifference to or lack of concern for their association with the political structure or political authorities.

After a period of political upheaval with a political structural reform in its wake, people generally have a critical attitude toward the political structure. This is a natural phenomenon of a transitional political culture. This trend is shown in Tables 3, 4, and 5. Another sampling survey shows that 74.4 percent of the people covered feel the absence of political democracy, and believe that modernization cannot be accomplished even though the economy has been truly improved, while 81 percent believe that the time is now appropriate for China's political structural reform. Their way of thinking is understandable during the transition from the new to the old. People's feelings for a system are based on its performance and practical results. These four features are the outcome of the major environment of China's reform with its advantages as well as disadvantages. The advantage is that they help in the formation and development of model political behaviors, while the disadvantage is that they are not conducive to political stability and the effective functions of the political structure. Under the present conditions, we must fully understand the positive as well as negative effects of the political cultural structure and take effective measures to eliminate the disadvantage and to preserve the advantage.

They are by no means the evils of Chinese political culture in transition, but only the natural result of the transition. Some brand-new elements are now germinating from Chinese political culture in transition, and such elements as the spirit of democracy, openness, creativity, and equality have been fostered to a certain extent. They will certainly have profound effects on Chinese political culture and the development of practical politics.

Table 3 Some people said: "The problem with the political structure is an important Cause of China's slow development." Do you agree?

Opinion	under 25 years of age	from 26 to 35 years of age
1. Fully agree	18.9%	12.5%
2. Basically agree	55.4%	62.5%
3. Completely disagree	15.62%	18.06%
4. Disagree	12.08%	6.94%

Reprinted from ZHONGGUO QINGNIAN BAO 12 Dec 1987

Table 4 Citizens' Evaluation of Political Structural Reform

1. Best to preserve status quo; no use to reform again and again	13.3%
2. Don't make any move for the time being, or the future will be unpredictable	5.37%
3. Conduct careful experiments in readjustment and restructuring	34.47%
4. Major surgery for political structure, immediate, all-out reform of political structure	17.23%
5. Pool ideas extensively, create environment for political structural reform	15.04%
6. Don't Know, other	14.59%

Reprinted from SHIJIE JINGJI DAOBAO 26 Oct 1987

Table 5 What political functions should the party have in your opinion?

Functions	under 25 years of age	from 26 to 35 to years of age
1. The party should unconditionally and directly control the state and social life	8.76%	10.8%
2. The party should have personnel, policy-decision, and also administrative powers	15.38%	11.41%
3. The party should have personnel and policy-decision powers, but not administrative power	14.74%	16.3%
4. Party and government should be combined at higher levels but separated at lower levels	6.2%	5.98%
5. The party makes cardinal policies and supervises the government with no direct control	24.57%	30.71%
6. The party acts only as spiritual leader and provides guidelines and theories	20.95%	16.58%
7. The party controls only party members and party organizations	9.41%	8.15%
8. Combination of party and government (total)	24.15 %	22.28%
9. Separation of party and government (total)	75.85 %	77.72%

9411

Housing Reform Policy Details

40050239 Beijing BAN YUE TAN [SEMIMONTHLY
TALKS] in Chinese No 7, 10 Apr 88 pp 26-28

[Text]

I. Arrangement

Commencing in 1988, over the space of 3 to 5 years, housing reform will be carried out systematically across the nation. In 1988, housing reforms will begin in 80 selected cities including all provincial capitals. Comprehensive reforms should already be underway in 53 cities previously chosen for experiment, along with 3 cities where reform commences in 1987, making 56 cities in all. Reforms will commence in the three municipalities of Beijing, Tianjin, and Shanghai, the provincial capitals and capitals of autonomous regions, and expand to embrace the entire country. Every province, autonomous region, and national municipality will also select one or two county towns for experiment. In 1989 an additional 150 to 200 cities and 5-6,000 towns will commence a series of limited or comprehensive reforms.

By 1990, excluding certain remote and economically backward areas, housing reform should be underway in cities and towns across the nation. Furthermore, initial steps will be taken in the majority of cities and towns to set up a 5-point rental and housing fund plan. This will create conditions favorable to the purchase of homes by workers, and set our nation's housing system on a new course.

When this stage of reform is completed, the next important step follows: after wage adjustment, housing vouchers will be figured in with salaries, and become part of operating costs (they will be entered in the public finance budgets of office and industrial units). Those living in private homes and rustic villages will be brought under the scope of the housing reforms. Wages and rents will be raised to market levels. Housing will become a sales commodity. A real-estate market will be created, and housing will become a professionalized, specialized, and public endeavor.

II. Some Specific Policies

1. Public Housing Rent. The standard rent should be calculated based on the five factors of depreciation, maintenance, management, investment interest, and property tax expenses. The average monthly rent per square meter of living space is calculated at 1.56 yuan, it will now be standardized at over 1 yuan. This can be achieved in one step or by graduated increases, but after the first year the figure must not be too low.

2. Housing Vouchers. After raising public housing rents, housing vouchers must be provided for their occupants. These vouchers should be issued according to an appropriate proportional method. Using a base number calculated from the average living space of all urban workers and average wages, a proportion of salaries will be issued in the form of housing vouchers. According to calculations, the value of these vouchers should not exceed 25 percent of salaries. The bond coefficient times the individual worker's salary equals the value of the housing voucher the worker should receive. When issuing housing vouchers to workers, the account transfer method can be used, there is no need to pay cash. Housing vouchers can only be used to pay new rent increases, if there is any surplus it can be deposited in a bank as the individual's housing fund towards buying or building a home. Thus there will be no negative impact on other consumer markets.

3. Housing Funds. Business units will be established in cities and towns to manage three-grade individual housing funds. Money will be raised from surpluses in individual housing vouchers and other sources for a fund to buy or build homes.

4. Increase Housing and Rent Receipts, Decrease Housing Profitability. This is a fundamental principle of housing reform. People with high incomes, who also receive large housing vouchers, cannot carry on these practices under the reforms. Regarding a small number of families in difficulty due to increased rents and other expenses, the separate factors of average income and

living space can be examined, and policies of reduction, exemption, or subsidization can be extended for a certain period (perhaps three years). The expense of such reductions, exemptions, and subsidizations must be precisely managed, and not exceed 5 percent of the value of housing vouchers in any city. The money will come from the urban housing budget. Workers who demand deductions, exemptions, or subsidies must apply individually for unit approval.

As for families moving into public housing after reform, as the cost of housing will be determined by individual choice according to economic circumstance, the issuance of reductions, exemptions, and subsidies will be discontinued. Families with special problems can be independently handled by their own units according to normal welfare subsidy procedures. As for people who do not rent public housing, and migratory workers, they will receive no housing vouchers during the periods when they pay no rent.

5. Sale of Public Housing. The price of housing must be determined reasonably. The price of new housing is calculated according to standard criteria. The standard price of old housing is calculated in accordance with environmental factors, resale discounts, etc. The price of brick-facade houses must in general not be allowed to drop below 120 yuan per square meter. The original system of subsidized or limited property-right sales should be discontinued immediately. After housing is purchased by workers, the property rights revert to the individual; the property can be used, bequeathed, or sold. If the property is put up for sale, any increase in price must be limited to a figure calculated according to the original purchase price and the cost of constructing an equivalent new structure at the time of sale.

Preferential treatment must be accorded workers who purchase houses. The property right units should give

appropriate preference to those who make a one-time payment in full. Those unable to pay in full should make a down-payment of no less than 30 percent of the house's purchase price. The additional funds can be applied for at a bank in the form of a long term low interest mortgage loan. Business units with considerable spare capital can give deductions to low-income workers based on their situations. The loan period for new houses generally should not be more than 15 years, or 20 years at most; for old houses, 10 years at most. Moreover, interest rates will be determined based on the length of the loan repayment period. In addition to turning over their housing vouchers, families buying houses should also give 10-15 percent of their monthly income as cash payment. The preferential measures and pricing standards described above should not apply to households with an income over 10,000 yuan a year.

Older housing should be priced to sell. The aim in selling older housing is to attract families to cities and towns and thus provide them with an appropriate complement of workers. Preferential pricing takes the family as a unit, each family can receive such preference only once. Purchasers of old houses will be exempt from property tax and duty stamps. The loan period for older houses will in general not exceed 10 years. The interest rate will be determined by the length of the loan period.

In high-rise dwellings, the expense of elevators, high-pressure water pumps, and heating will still be borne by the worker's own unit. Workers who purchase older houses should be permitted to offer them for sale after a certain period of time (tentatively set at 5 years). The unit which sold the house originally, will have first option to repurchase it.

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NATIONAL AFFAIRS, POLICY

Minister Advocates Raising Enterprise Groups to 'New Level'

HK1608070588 Beijing ZHONGGUO JINGJI TIZHI
GAIGE in Chinese No 7, Jul 88 pp 6-9

[Article by Vice Minister of the State Commission for Structural Reform He Guanghui 6320 0342 6540: "Raise the Enterprise Groups in Our Country to a New Level"—A Speech Delivered at a Discussion Organized by Enterprise Groups in Luoyang on 16 May]

[Text] In recent years, with the deepening of economic structural reform, extensive development of lateral economic links, and continuous reform of the operational mechanisms of enterprises, enterprise groups have developed sufficiently. They are playing a more and more important role in the national economy, and have demonstrated their great vitality. At present, enterprise groups in our country are shouldering the important historical task of invigorating our national economy, implementing a strategy of economic development for coastal areas, and meeting the challenge of the contemporary new technological revolution. They have broad prospects for development. Therefore, it is our strenuous and urgent task to raise and upgrade the level of development of our enterprise groups to a new level and stage of development. At present, the following work should be promptly done so that we can further consolidate, develop, perfect and enhance the general level of enterprise groups in our country.

I. We Should Establish a Strict and Scientific Management Level to Enhance the Management of our Enterprise Groups to a New Level

Currently, our enterprise groups are facing three main problems: First, policy; second, management; and third, technical reform. Comparatively speaking, we have talked a lot about the problem of policy, the problem of reform, and the problem of importing technology and equipment, and so on. However, as far as the second problem, namely the problem of management, is concerned, we have not done enough to deal with it. Modern enterprises are reflected not only in their modern facilities and technology, but also in modern management. To proceed to an advanced level, our enterprise groups must, first of all, make a breakthrough in this regard. Our efforts must be devoted to the level of management.

An enterprise group is not a sample of a sum total of enterprises. It not only means the quantitative expansion of enterprises, but also the significant increase in their quality. Through the reorganization, readjustment and transformation of enterprises, we form a new and multilayered enterprise organization based on an efficient structure. Therefore, enterprise groups must not follow

the traditional management ways and methods of a certain enterprise. They should make an active exploration, and follow new ways and methods for the management of enterprise groups.

1. Enterprise groups should free themselves from the fetters of the old system, and establish a full set of scientific management methods and systems. Each and every enterprise must have its own definite way for management.

2. Efforts must be conscientiously made by those nucleus enterprises in enterprise groups to turn themselves into high-grade and high-standard units. They should strive to attain the advanced level of international enterprises of the same trade within several years. This demands that member enterprises of an enterprise group seriously learn from the advanced and effective management experience and methods of the enterprises in economically developed countries. They should tap their potential and enhance their economic results.

3. Efforts must be made to promote reform in the operating mechanism of enterprises. The mechanisms of competition must be introduced into enterprises. Efforts must also be made to develop and perfect various kinds of contract responsibility in enterprises.

II. We Should Rely on Scientific and Technological Progress To Increase Development Capability of Enterprise Groups To Push the Technology and Products of Enterprises to a New Level

Modern science and technology and modern management is a determining factor for enhancing economic results, and an essential condition for our country's economy to enter a new stage of growth. We should soberly realize that it will not work for us to develop our economy by relying on backward technology and consumption, and the great consumption of resources. Without scientific and technical progress, it is impossible to develop new productive forces.

In particular, under the condition of the rapid development of the new, world technological revolution, if we fail to make the best use of our time, or rouse ourselves to catch up, it is impossible to narrow the gaps between us and economically developed countries in the world, let alone getting a firm foothold in international market. Scientific and technological progress and the enhancement of management levels will fully determine the modernization process of our country. It is a matter of primary importance which concerns the invigoration of the Chinese nation. In not too long a period of time, we should make efforts to enable a number of our enterprise groups to make a breakthrough in their new technology and products, so that they will advance a step further, and technologically rank among the world's most advanced.

To accelerate technological progress, we should have our feet firmly planted in China's practical conditions and have the whole world in view. We should accurately choose our direction for development, and determine our key projects. At present, our efforts must be mainly devoted to solving the following problems: 1) As far as scientific research units are concerned, they should get rid of their traditional methods for doing things in a secluded way. In other words, they should no longer carry out research projects, develop new products, design new technology, or write theses in laboratories or research institutes alone. They should take economic invigoration as their most important task. They should meet the demands of the development of the commodity economy, serve production, both international and domestic markets, form lateral links with enterprise groups, or join them. 2) Enterprise groups should shorten the cycle and simplify the procedure for the application of scientific and technological achievements to production. They should rely on scientific and technological progress to consolidate and invigorate enterprise groups as a matter of primary importance. They should actively form their ties with scientific research and design units, and gradually develop their own scientific and technological development centers. They should conscientiously implement the policy of the party central committee and the State Council for intellectuals. 3) While actively popularizing the application of scientific and technological achievements and speeding up technological reform in enterprises, we should conscientiously organize a capable force and lose no time in carrying out research work on high technology. In particular, our efforts must be devoted to the study and development of electronics technology, information technology, biological engineering technology, and new material technology. We should vigorously develop soft science. 4) We should continue to actively import foreign advanced technology and closely link it with our science and technology at home to truly strengthen the work of digesting and absorbing the imported technology, and of blazing new trails.

III. We Should Have Our Feet Firmly Planted at Home and Set Our Eyes on the World to Enhance the Competitiveness of Enterprise Groups Entering the International Market to a New Level

The contemporary world is a world opening up. We have scored a great success in implementing our basic national policy of opening up. In the future, we should correctly choose a strategy for exports. We should be bold in entering the economic arena of the world, and enhance the export capability of our enterprise groups to a new level so that they can make still greater contributions to earning more foreign exchange for the state. This is a historical responsibility of enterprise groups. Recently, the CPC Central Committee and the State Council defined a strategy of economic development for the coastal areas. This policy decision is completely correct. We should lose no time in speeding up the implementation of this strategy. Taking the good opportunity of the

readjustment of the international production setup, we should make use of the abundant labor force in the coastal areas to promote the production of labor-intensive products. We should adopt the method of "both ends abroad, and high volume of imports and exports." We should develop the economy characterized by "three forms of import processing, and compensation trade" to speed up economic development in the coastal areas, and the development of China's economy as a whole. In this regard, we should have a sense of urgency. In accordance with international market demand, and the strong points of our country, we should actively develop competitive, efficient and highly profitable products for export. We should make great efforts to increase the quality of export products, rationally arrange export product mix, and comprehensively open up the international market.

Products on the international market are roughly divided into two major kinds. First, products which neither require high technology nor entail high additional value. Second, products which are characterized by high technology and high additional value. Products of the first kind are labor intensive products, which are characterized by less investment, quick turnover of funds, and minimal technological difficulties. By manufacturing such products, we can give play to the strong point of the low cost of labor, and achieve quicker economic results. This can satisfy the demand of "quick success and instant benefit." While manufacturing such products, we should rely on enterprises in general and town and township enterprises. As long as efforts are made to strengthen management, they can manufacture such products. We should give play to their strong points in this regard, and give them a free hand in their production. Strategically speaking, developing the second kind of products, namely products with high additional value, and pushing them on the international market is a key determining whether our policy of opening up and economic strength can be solidly developed in the international economic environment in the future. This is also a matter of primary importance which determines whether our Chinese nation can stand on our feet in the family of advanced technology in the world. By the end of this century, or during the first or second decade of the next century, if our famous-brand products of high technology, or leading products fail to occupy the international market, we will be in a backward position forever, and fall behind others. Therefore, this is not merely an economic or technological problem. What is more important is that it is a political problem. Therefore, in the process of implementing an economic strategy for coastal areas, of reorganizing export-oriented enterprise groups, and of developing products with low additional value, we should devote our main efforts to grasping the work of manufacturing products with high additional value in a planned way. Only thus will China become a great technological and economic country in 10 or 20 years, or in a longer period of time. Only thus can our export-oriented economic structure become more and more consolidated. To develop products of

high additional value, we can only rely on those large and leading enterprises and enterprise groups, because they possess an economic superiority in terms of technology, production capability and scale.

To establish export-oriented enterprise groups, we should pay attention to the following problems: First, various sectors and departments should keep in line with the demands of the developing economy for the coastal areas and reorganizing enterprise groups to enhance economic results, and improve quality of service. They should make a greater improvement in terms of policy, rules and regulations, work style and work efficiency. To conform with the ever changing international market, we should revise those inappropriate rules and regulations governing foreign trade, banking, foreign exchange administration, and so on. Of course, we cannot reach the goal in one step. Second, we should enhance the management and technological level of export-oriented enterprise groups, and grasp the integration between science, technology and production. We should also attach importance to the experience of foreign countries in scientific management. Some enterprise groups run by foreign capital may invite experts to participate in management. Our cadres can be trained through establishing sino-foreign venture enterprises. Efforts must be made to train our talented personnel for management, and to change the present situation of enterprises, which is characterized by backward management, and their inappropriateness to the development of an export-oriented economy. Third, each and every enterprise group should manufacture famous-brand and excellent products which are able to hold their ground on the international market. In particular, they should be determined to manufacture leading products which have high additional value, are famous on the international market, and recognized and accepted by the Western society. In the meantime, these products must open the way for other products so that they can also enter the international market. Fourth, we should purposely and gradually establish multilevel international sale networks. At present, we should give play to the strong point of the cooperation between enterprise groups, and overcome the erroneous idea of "preferring the head of a chicken to the tail of a phoenix." (ning wei ji tou bu wei feng wei 1337 3634 7741 7333 0008 3634 7685 1442) We should realize that this is a matter of great significance which "lays a foundation which will last 10,000 years."

We can only rely on our efforts to produce our own famous-brand products and establish our own commercial networks. Only thus can we overcome the passive state of relying for a long time on foreign commercial networks which "purchase" our export products."

IV. We Should Study the Science of Behavior (xing wei ke xue 5887 3634 4430 1331), Promote the Culture of Enterprises, and Enhance the Quality of Workers and Staff Members of Enterprise Groups to a New Level

Not long ago, while meeting with some excellent entrepreneurs, Comrade Zhao stressed that it was very important to strengthen ideological and political work in

enterprises. Paying attention to material interests and bonuses alone, or following the old method for ideological and political work will not work. We should not separate ourselves from reality. We should explore a new way for ideological and political work in enterprises. To do a good ideological and political work, we should show concern for people and enhance the enthusiasm of workers and staff members and increase the centripetal and rallying force of enterprises. In a word, we should grasp two things in the entire industry: First, management and technical progress; second, spiritual force, namely ideological and political work. We should explore a new way in this regard.

We Chinese have always had a good tradition and the virtue of bearing hardship and standing hard work. However, due to the fact that we slackened our efforts to grasp management and ideological and political work, the phenomenon of being lax in discipline and work has generally existed in factories. Their efficiency is very low. If this situation remains unchanged, our entrepreneurial spirit will be ruined. To invigorate our economy, we should first of all, inspire the enthusiasm of workers and staff members, and enhance their quality. We should study the new method and new way for ideological and political work at the present stage. With regard to political and ideological work, on the one hand, leaders at all levels and enterprise cadres in particular, should attach importance to and strengthen leadership over it. They should grasp it personally. On the other hand, what is more important is that under the new situation, the old working method should be changed and a new one devised. For a period of time, foreign countries have attached importance to the science of behavior and paid attention to studying relations between men in the commodity economy. Many enterprises have promoted their own "culture of enterprise," and developed new professional ethics for workers and staff members. Through the activities of showing concern for, and giving every care to people, the centripetal and rallying force of enterprises have been increased, so that workers and staff members love their factories just as they love their own home. We should learn from and use for reference these useful things and add new socialist contents them, so that we can develop our own culture of enterprise and develop our own science of behavior. A number of entrepreneurs have paid attention to this problem and many enterprise groups have set their own goals and slogans. They are actively exploring the way and method for improving the quality of their workers' contingent. As long as each and every enterprise persists in so doing, the fine tradition of our nation will be restored and carried forward.

V. We Should Conscientiously Solve the Problem Involving Policies and Create a Fine External Environment and Conditions for the Development of Enterprise Groups

Our enterprise groups are new things which have occurred and developed in the course of the old system being replaced by the new one. They are inevitable

trends in the development of the commodity economy. Although they have a great vitality, they clash and conflict with the old system. In addition, the current economic environment is not lax. All this has created more difficulties for the development of enterprise groups. Therefore, creating a fine environment and lax condition for the development of enterprise groups is a problem which we should pay close attention to when we are currently carrying out reform and formulating our policies.

Getting rid of the principle of the "three unchanges" (san bu bian 0005 0008 6239) is a problem to which various sectors have shown strong reaction in the course of developing lateral economic links and organizing enterprise groups. This problem must be solved now. In his speech, comrade Zhao Ziyang pointed out: In the past, it was right to advocate a loose cooperation based on "three unchanges." However, we should not rest content with this. Otherwise, it is impossible for us to make progress. On the contrary, we will go backward. At present, we are facing the problem of making further progress, and advancing toward a direction of truly developing enterprise groups. We will fall behind once we fail to make progress. We will become disorganized once we fail to unite as one. It is a comparatively complicated problem to get rid of the principle of the "three unchanges." This principle was developed by the old system, and has involved the interests of various sectors. Therefore, while solving this problem, we should take a firm attitude and provide a careful guidance. At present, various localities have adopted some good methods and had good experiences in getting rid of the principle of the "three unchanges." They mainly include the following: First, contracting an enterprise to other enterprises; second, implementing a joint-stock system; and third, transfer of enterprise assets with compensation, which is also called annexation. Comrades in various localities, departments and enterprise groups may conscientiously study these methods and select one of them in light of their own actual conditions. At present, we should also prevent the practice of taking a simple administrative method to interfere in the operational power of enterprises, and of encroaching upon the interests of the state and enterprises.

The development and expansion of enterprise groups will affect the interests of various localities, sectors and enterprises. Difficulties and obstacles will inevitably occur in this regard. Therefore, various localities and key cities in particular, should consider our general strategic situation of invigorating our country's economy to support enterprise groups, and create and provide a fine environment and condition for the development of our enterprise groups. First of all, we should change our concepts. We should overcome the idea of a product economy and the concept of small producers. We should establish a concept on the modern commodity economy, and overcome the idea of self-seclusion. We should work out an economic strategy based on international competition, and get rid of shortsightedness, and the idea of

considering immediate interests alone. We should develop a strategic thinking for long-term development. Only in so doing can we change our traditional concepts, propose a policy beneficial to the development of enterprise groups, and solve the problem of increasing work efficiency, and providing a fine environment and conditions in the course of developing enterprise groups.

VI. We Should Explore the Way and Implement on a Trial Basis a Joint-Stock System and Straighten Out Relations Among Enterprises Involving Assets

The report to the 13th CPC national congress has pointed out: With the development of socialized mass production and the commodity economy, a market for means of production, a financial market, technology market, and labor service market will inevitably occur. Bonds and shares will also be issued. All this is by no means unique to capitalism alone. Socialism can and must make use of them to serve itself, and restrict their negative roles in practice. Since 1986, the joint-stock system has been implemented in China on a trial basis. In particular, following the occurrence of enterprise groups, our joint-stock system has been developing gradually. It has become an important way and method for organizing enterprise groups, straightening out relations among enterprise groups involving assets, and affirming and protecting the interests of enterprise groups. Practice over the past 2 years has proved that the joint-stock system is an important means for promoting the profound development of enterprise groups, and a good form for establishing a new socialist ownership system. It has solved the problem of ownership involving lateral economic links between different enterprises of different ownership systems. It has removed the insurmountable barrier hindering, for a long time, the organization of enterprise groups.

In particular, under the present condition that the state is lacking funds, we should concentrate the funds of various sectors in society on doing things which are not in the financial power of the state. It is now obvious that the establishment and development of enterprise groups is linked to a certain extent with the joint-stock system. Therefore, we should conscientiously study the issue of joint-stock system, and explore and improve in practice the joint-stock system in our country. Of course, the implementation of the joint-stock system has involved many problems which do not conform to the existing rules and regulations, management system, and the relations of assets. People have not yet reached unanimity as far as their theoretical understanding of the matter is concerned. In the process of implementing the joint-stock system, there are some specific technical problems which should be solved. However, as long as we conscientiously treat, actively guide and constantly inject the new contents of the socialist commodity economy into our joint-stock system, we are completely sure that it will healthily develop in our country.

Author Reviews Price System for Leased, Sold Commodities

40060355 Kunming JINGJI WENTI TANSUO
[INVESTIGATION OF ECONOMIC PROBLEMS] in
Chinese No 4, 20 Apr 88 p 36

[Article by Yang Jirui 2799 4949 3843: "Review of Lease and Sale of Commodity Prices"]

[Text] As the commodity economy of socialism continues to develop, specific forms of commodity exchange using currency as an intermediary are tending towards diversification. From the standpoint of whether this is transforming property ownership rights, we can look at each type of form of commodity exchange and conclude that the two main types of commodity sale and commodity lease and their prices can correspondingly be divided into selling price and leasing price. This paper drafts a preliminary inquiry, offering some commonplace remarks to stimulate the valuable opinions of the readers.

I

Commodities are brought by their possessors to the marketplace in order to be exchanged. During the exchange, each owner of a commodity acts as a commodity guardian who must reflect the established relationship of a commodity owner. Only through the established behavior of two parties and agreed upon appropriate forms of behavior, can the commodity owner transfer the commodity and can the other party take ownership of the commodity. This type of firmly set relationship has been determined by the objective conditions of commodity economics and is the personification of product relationships. From the point of view of whether or not the person participating in the commodity exchange becomes the purveyor of property ownership rights, each commodity exchange relationship can be divided into two main types of exchange—sale and lease.

The sale of a commodity transferring property ownership rights of the commodity or partial ownership rights can serve to illustrate special characteristics. As Stalin said, "Commodities are the following type of goods: they can be sold to any buyer; after the sale of the commodity the commodity owner loses ownership rights over the commodity; and, the purchaser of the commodity becomes the possessor of the commodity and can resell the commodity, put it up for low mortgage, or let it rot."

1 According to the basic principle of economic law, complete property ownership of a commodity consists of the commodity possessor having the four rights to possess, utilize, make profit on and distribute the commodity under his control. The owner of the commodity can, according to the needs of economic profit, transfer to another person, either partially, temporarily, or conditionally, one, two, three, or even four of these rights. But this doesn't imply that the commodity owner has lost all

of his own ownership rights. Actually, the opposite is true. This is a special method of exercising the property ownership rights of a commodity owner.

A popular conception is that, for commodity exchange of enterprises under different systems of ownership, ownership rights must be transferred. In commodity exchange in enterprises under the system of ownership by the whole people, property ownership rights are not transferred. Rather, only use rights and operating rights are transferred. This writer takes a different point of view.

First, taking whether or not transferring property ownership rights serves as objective proof of commodity exchange is a poorly worded question. Commodity exchange includes sale of commodities and leasing of commodities. Transference of property ownership rights is only a necessary condition of commodity sale, but is not a necessary condition of commodity leasing.

Second, even though commodity sales for enterprises under the system of ownership by the whole people have not fundamentally changed the nature of commodity ownership, whatever the rank and position of the seller and buyer, when they embark in the action of commodity exchange, the pair of people exchanging must both consider the partner to be the owner and it is a single person. Marx said that in the process of exchanging commodities "...people must only very quietly, mutually act as the private owner of a material that could be ceded to another and from there act as a single person in instigating the relationship."² The ultimate owner of a commodity of a business within the system of ownership by the whole people is a member of the people's collective. However, the appropriate separation between ownership rights and operating rights makes the enterprise the direct owner. There are fairly independent enterprises owned by the people with different advantages in relationship to the unified system of ownership by the whole people that, according to the authorization of the state have partial ownership, use, profit-making and distribution rights over products they manufacture or handle. Because of this, commodity sales for enterprises under the system of ownership by the whole people must follow the principle of equivalent price exchange, and take the other party to be "acting as an independent person in entering the relationship." The seller turns over the commodity to the buyer, in essence taking vested partial property rights and turning them over to the buyer. We can see that commodity sales in enterprises under different systems of ownership are a total transfer of property ownership rights; commodity sales for enterprises in the system of ownership by the whole people exhibit partial transfer of the intrinsic property ownership rights, including ownership, partial and conditional transfer of use, profit-making and distribution rights.

Third, taking business transactions for commodities of enterprises in the system of ownership by the whole people and giving them back commodity use rights or

management rights will certainly confuse the legal delineation between commodity sale and commodity leasing. The special features of commodity sales and transference of property rights or the intrinsic partial transfer of rights for property ownership rights are that property use rights or operating rights are external manifestations of ownership rights in manufacturing and management activities and are derivative products of ownership rights, rather than the main body of ownership rights.

Commodity leasing is directed to the unchanging front of property ownership rights, the compensated turning over of simple property use rights or operating rights. Engels astutely pointed out, "For commodities with very long periods of consumption, there is a possibility of taking the use value and selling it in a piecemeal fashion. In each case where there is a definite time limit you can take the use value and rent it."³ From this paragraph, of Engel's discussion, we can glean two valuable points: (1) commodity leasing is not of the nature of commodity material purchase or a dividing up of quantity for sale and therefore is not what we commonly think of as commodity sale. It takes the form of commodity material purchase under a number of set conditions, taking the use time limit for the commodity and breaking up the whole into parts. From this, according to the use value of the commodity, with the capacity value of a set use period, to divide up the realized value. (2) The "piecemeal sale" of a commodity with a use time period is not what we usually consider as a commodity sale. Our usual conception of commodity sale is when the entire use value is transferred together with property ownership rights. "Piecemeal sale" of the limited time period of use of a commodity is commodity leasing, where the owner of the commodity (renter) relies on the property ownership rights to conditionally cede property use rights or operating rights to the rentee.

Commodity leasing and sale are both forms of commodity exchange. However, different forms of exchange play guiding roles for each different type of commodity. Generally speaking, for products with low value and shorter use time periods, selling is more frequently the mode of exchange. On the other hand, commodities with larger value, and longer use times, leasing is the more used mode of exchange.

II

Since there are two main forms of commodity exchange, the same commodity in the same market at the same time, two types of prices may emerge—sale price and leasing price.

The sale price of a commodity is a monetary demonstration of the value of the commodity. It is the ratio between the commodity value and money value. Therefore, unless the magnitude of commodity value and the magnitude of money value change and develop in identical directions and in the same proportion, a change in either of the two values can stimulate a sale price

increase. Commodity sale price, in addition to being determined by the commodity value and money value, is also influenced by changes in the market supply and demand relationship. The sale price of a commodity must be based on its value.

This is the fundamental requirement of the law of value. Under conditions of socialism, there are three components of commodity value: one is the past value of labor created by laborers; two is the value that laborers created themselves; third is the value laborers created for society. Since all three aspects are appropriate, sale prices for commodities also includes three aspects. First is expenditure for material consumption; second is compensation for labor; third is interest and tax. In the manufacturing process itself, expenditure for materials consumed and compensation for labor make up the cost price. The cost price is the lowest economic boundary for the commodity sale price. As Marx pointed out, "The lowest boundary of commodity sale price is determined by the commodity cost price. If the commodity is sold at less than its cost price then the portion of production materials already consumed cannot be recovered from the sale price. If this process continues, the prepaid capital value will be lost."⁴ We can see the sale price of a commodity in quantity must exceed its cost price in order to reclaim the consumed cost of materials and labor and take in a profit.

The leasing price of a commodity is a monetary demonstration of the partial value of the commodity. This partial value mainly refers to the buried value and interest during the rental period.

The leasing cost and sale cost of a commodity are the same—both reflect the exchange relationship between the manufacturers and managers. They both reflect "completely normal commodity transaction. And this type of transaction proceeds according to adjustment of the economic laws of average commodity trading."⁵ In other words, commodity sale and rental prices are set according to equivalent exchange principles. They are both demonstrated forms of each aspect of value laws.

Aside from the general character of sale price movement of commodity rental prices, there is some individuality of movement. According to the basic theory of Marx' political economics, the magnitude of commodity leasing price should be equivalent to the price of fixed capital credit. In "Discourse on Capitalism", Marx points out that according to the nature of capital credit commodities, or for fixed capital credit or for fluctuating capital credit. For example, if it is paid back in lifelong annual installments, bit by bit bringing back in the interest, then it acts as set capital credit. There are some commodities such as housing, boats, machinery, etc., that, according to their nature, can only act as fixed capital credit.

If the amount loaned out is not money and is also not floating capital, it can only be repaid according to the method of fixed capital return. The lender accrues interest each period, and also gets a portion of the already consumed value of the fixed capital itself and the equivalent value of periodic damage and loss. The as yet unconsumed portion of the loaned out capital will return in kind.⁶ This paragraph of Marx clearly illustrates the nature of commodity leasing. Commodity lease price is the use value of the commodity divided into periodic price. It is the monetary demonstration of the use value of the commodity sold in piecemeal installments or the gradual realization of that value. Talking theoretically, the commodity leasing value is the partial value lost through leasing the commodity for a period of time and added to that the interest that should be charged on the sale price of the commodity. Here, the lowest economic limit of commodity rental price is the lost value during the rental period. If the commodity rental price is less than the economic limit, there will be no way to repay the consumed value of the commodity rental period value, but the magnitude of value realized from commodity rental will be less than the value of the commodity.

The rental price of a commodity includes interest. This is because the value of all the commodities owned by the renter is not realized at one time. Realization of value over time periods should occupy a substantial amount of funds. As far as these funds go, they should be repaid in the form of interest by the renter. Not only does this not violate rules, it does the opposite—this is actually the objective requirement of value rules. Because “the renter is not only claiming a certain payment from the rentee, this is a transfer of the value that existed previously at the time of manufacture, and the total value commonly held between the renter and rentee doesn’t change.”⁷

There is a necessary connection that exists internally between the commodity lease price and sale price. Leasing price is a specially divided up form of sale price. Commodity sale price is the “first stage price”. It is determined directly by the commodity value. Commodity leasing price is the “second stage price”. Although it ultimately determines the commodity value, the “second stage price” could directly depend on the “first stage price”, taking into consideration factors such as lease period, the use period of the commodity and the bank interest rate. Because of this, in order to set a reasonable leasing price you must first set a reasonable sale price and take the reasonable sale price as the basic determinant.

The relationship between commodity lease and sale price is usually referred to as “lease-sale price ratio”. However, strictly speaking, this is not the accurate meaning. According to our understanding, commodity price ratio refers to the ratio relationship of prices of different commodities in the same market during the same period. Only between the prices of different types of products does there exist a price ratio relationship.

This author believes that since the lease price is one specially demarcated form of the sale price, taking one commodity, its lease price is always lower than its sale price. Therefore, a sort of price differential develops between the sale price and leasing price. In other words, the relationship between commodity sale price and lease price qualitatively belongs to the category of a commodity price differential relationship, which can be called “lease-sale price difference.” This lease-sale price difference refers to the price differential that results for the same product in the same market at the same time, depending on whether or not the ownership rights and entire use period of the commodity are turned over. Lease-sale price difference is mechanically coupled with purchase-sale price difference, regional price difference, wholesale-retail price difference, and quality price difference, constituting the commodity price difference system.

III

Development of socialist commodity economics is the fundamental theory and reality of this stage of China’s socialist economy. Researching in depth the forms of sale and lease and their price difference in commodity exchange has great theoretical and practical significance in developing socialist commodity economics and deepening economic structural reforms.

First, revealing the two forms of commodity exchange and their price is helpful in discarding the traditional notion of simple commodity economics that there is only one single form of exchange.

For a long time quite a few comrades, when observing commodity exchange, prejudiced about the range of commodity sales, place commodity lease outside the realm of commodity exchange. This, in essence has still not broken through the confinements of simple commodity economics. Socialist commodity economics are developed commodity economics. Not only are consumer goods commodities, capital goods are also commodities. Moreover, consumer goods with large price volume and rather long use periods, such as housing, are also commodities. This determines that under conditions of socialism, commodity exchange must naturally make use of the two main forms of exchange—commodity sale and lease.

Whether the primary form of commodity exchange is still sale or lease is not subjectively determined by people. Rather, it is decided by the internal attributes of the commodity—the special indicators of value and use value. In this case, use value length of use period plays a critical role. This gives us the beginning point. Commodity use value is not only the material bearer of value, it is also an important component in influencing the value realization method.

Wherever there is commodity exchange there is also a market. Socialist markets are an organic system, composed of a number of markets. For example, consumer goods markets, capital good and materials market, financial markets, labor market, technical market, etc. And this is not all. The socialist market system is also a layered system. Looking from this layered perspective, it includes the "first stage market" of sale and the "second stage market" of leasing. The layered nature of socialist market is determined by the two main forms of commodity exchange.

Secondly, in revealing the two types of commodity exchange and their prices, also assists in deepening the theory of price system and promoting price reform.

In theory, since we lack systematized research about commodity rental price, many dictionaries of price studies and textbooks, when dealing with the pricing system, don't discuss lease and sale price difference and don't place lease-sale price difference within the range of price differences to research it in depth. The lack of theoretical understanding inevitably leads to errors in practice. In this recent period, related departments have stressed one time sale price, overlooking the different grades of divided up lease price. They stress the setting and adjustment of commodity sale price, and overlook the setting and adjustment of commodity leasing price. In real economic life, the fact that commodity sale price and lease price are often confused is the best evidence. Taking research on lease price lightly will inevitably lead to lease price setting that is lacking in scientific foundation, bringing management contradictions, causing sale and rental price for the same commodity to be totally out of line with each other, rending the internal connection between the two apart. Because of this, the set correct policies and measures will naturally produce friction, and will bring negative effects to the society's production and peoples' lives. This author believes that bringing the two main forms of commodity exchange and their lease and sale prices into the range of price study research is necessary and would be very beneficial. This will assist in smoothing the relationship between commodity sale and rental price, promote price reform and establish a reasonable pricing system.

Finally, illuminating the two types of commodity exchange and their prices will assist in promoting economic structural reforms.

Reform, opening up, enlivening, are all passing from the unfolding stage to the deepening stage. Energetically exploring and testing the specific nature of the relationship between ownership rights and operating rights that is appropriate for China's situation is a fundamental train of thought that will strengthen the dynamism of business and create a new type of enterprise management mechanism. As this path unfolds, leasing management for small scale enterprises within the system of ownership by the whole people will flourish like bamboo after a rain. It is just now beginning. The practice of leasing

management raises many new topics requiring research and resolution. The essence of lease management is the temporary compensated transfer by agreement of total or partial property management rights. This impacts on the reasonable price setting for rental of enterprise. Therefore, expanding the research of commodity lease prices can provide.

Footnotes

1. Selected works of Stalin, People's Press, 1962 p 612
2. Complete Works of Marx and Engels, Vol 25 pp 45-46
3. Selected Works of Marx and Engels, Vol 2 p 474
4. Complete Works of Marx and Engels, Vol 23, p 67
5. Complete works of Marx and Engels, Vol 18, pp 302-303
6. Complete Works of Marx and Engels, Vol 25 pp 384-385
7. Selected Works of Marx and Engels, Vol 2 p 473
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Dilemma of Enterprise Groups Discussed
HK1508000188 Beijing JINGJI GUANLI in Chinese No 6, Jun 88 pp 15-19

[Article by Wang Zhenquan (3076 6966 0356), Song Yong (1395 0516), Chen Zhijun (7115 1807 6511) and Zhong Gengshen (6945 5087 3234), edited by Yang Wenyu (2799 2429 3768): "Dilemma Faced by Enterprise Groups and the Way Out"—passages in boldface as published]

[Text] Following the continuous development in depth and width of reform of the economic structure, our country's enterprise groups are now situated at the crucial point of reforming and reorganizing and are facing a series of impediments and contradictions. Theoretical workers and practical workers in economics are now facing the important problems of how and from which new angle to study the development of enterprise groups, seek and locate a new growth point for enterprise groups and plan a program for speeding up the growth of enterprise groups.

I

Since the 3d Plenary Session of the 11th CPC Central Committee and particularly after the promulgation by the State Council of the "Provisional Regulations on Certain Problems Related to Further Pushing the Formation of Lateral Economic Combinations," there has been a flourishing development of lateral economic

combinations among the enterprises. A series of enterprise group bodies have been formed which take well-known products as the dragon head, large backbone enterprises as the nucleus and certain medium-sized and small enterprises which have innate relationships in production and management as constituent members. These bodies belong to the loose, semi-loose, tight and semi-tight production type, marketing type, production scientific research type and management service type. With time, and under the double role of the restrictions of the "three-no-change" structure and of their innate motives, these various enterprise group bodies have passed through several years of "trial-marriage" and have generated the two demands of further congregating or dispersing. Those intending to disperse have dispersed, while those intending on further congregate have tightened their association, asked for formal "marriages," and subsequently formed enterprise groups.

The generation and growth of enterprise groups in our country mainly comes from the promotional forces of two sides. First, stimulating power on the side of economic interests. Reform of the structure has vastly attracted the motive force and acts of the enterprises to seek economic interests. Enterprises with a low combination level of production elements suffer from their small share of the market or from the lack of a share in the market; they are anxious to find group for support or, literally speaking, "to borrow a hen to lay eggs," while it is possible for enterprises with a high level to obtain real economic benefits through their "marriages" with the low-level enterprises. Combination of the two thus expands the production capacity of products of well-known brands while the stimulation of innate interests builds the motivation for the rapid development of the enterprise groups. Second, the pushing force from the government departments. Liquidation and abolition of the companies of an administrative nature severs the umbilical cord connecting the government with the enterprises. In order to push the development in depth and in width of the lateral combinations, government departments have encouraged the establishment of enterprise groups and endowed them with the privileges of being listed in the budget plan. Along with this, in the course of liquidation of the companies of an administrative nature, some of them, urged on and helped by the government, have directly been converted into enterprise groups and some are split up into several such enterprise groups.

Since the day of their birth, enterprise groups have exhibited a strong vitality. Their rapid fostering and growth have speedily reaped the benefits of dimensional economy and facilitated the rational allocation of resources. Also, to a certain extent, they have broken through the limitations and bondages of the ownership system, localities and departments and facilitated and deepened development of the reform of the economic structure and the rapid growth of the national economy. However, due to the multifold forms of the structure and legal status of the enterprise groups, the government has

no way of formulating unified regulations governing them. As for the standard or norm of the birth and growth of the enterprise groups, the enterprises themselves have no way to anticipate their own acts and consequences and moreover quite a number of them were formed by marriages of "fixing the groom" type, being formed in a rush and dissolved likewise in a rush. Our country's enterprise groups may be said to be compromise products formed under the conditions of the enterprises not having yet been completely freed from the pattern of direct control and the essential elements market not having acquired full maturity yet and in the course of the friction and conflict between the new structure of the commodity economy and the old structure of the products economy. They still carry with them the hereditary genes of an intensive type of vertical administrative subordinate relations. Thus, it may also be said that quite a large number of enterprise groups are not enterprise groups in the real sense. What is important now is that from the starting points of reform and on the existing basis and in accordance with the normal standard of modern groups we build anew the enterprise groups of our country.

II

Normally enterprise groups in western countries are closely-knit public-body organizations of enterprises formed by taking the company and enterprise system as a basis, powerful and large enterprise (including banks, insurance companies and trust companies) which have continuously gone through the process of combination and amalgamation as the nucleus, and share rights and creditors' rights as the link or bond. Internally, the enterprises in the collective are divided into four layers, that is, nucleus enterprises, basic enterprises, satellite enterprises and cooperative enterprises. Between the various enterprises, relations of separate independence, reciprocal transfer of shares and reciprocal transfer of personnel exist, thereby forming a stable structure with a strong coagulating force. The coagulating force inside the enterprise group is not dependent principally on the self-volition or "consent" on a basis of equality between the enterprises but on the control relations formed by factual (not legal) inequalities between the enterprises. So far as the controlled enterprises are concerned (generally the medium-sized and small enterprises), this inequality in treatment is compensated for by the benefit of receiving technical guidance, stabilized relations in the supply of goods and other supra-market acts.

As a compromise product in the conflicts between the old and the new structures, the structure of our country's enterprise groups is rather non-standardized and they have many serious defects.

Instability in internal structure. Once established, enterprise groups in our country have onesidedly stressed the principles of equality and volition between the enterprises, but there is no maintenance mechanism of share rights, the relations of creditors' rights are also rather

weak (control of the creditors' rights in funds are especially severe), and the production contract represents the only control. Inside the groups no nucleus is formed nor are any differences between the grades or layers formed. The management and control relations already formed provide no guarantee, being either too loose or too strict. Hence, in reality, no effective management and control relations are formed and it is difficult to form the internal coagulating power found in the regular pattern of modern enterprise groups. If production happens to be normal, and the market remains stable, then the group structure and group effects may still be maintained; but once the leading plant changes its products or there are price changes due to market fluctuations, the enterprise group is liable to face the danger of dissolution.

Confused ownership right relations. In our country, the main body of the ownership right of properties owned by the whole people is abstract and imaginary. In reality, this type of abstract and imaginary ownership right is split up into a pluralistic "system of ownership by departments and localities." In its capacity as a legal entity, an enterprise has not acquired a clear-cut property ownership right and enterprise groups have come into being and grown precisely on this type of soil. Since the various enterprises participating in the enterprise groups are subordinate to different departments, the growth of the enterprise groups necessarily brings along great conflicting effects on the demarcation between the departments and localities. The result of such a lashing is naturally determined by a measure of strength between the lashing force and the hindrance power of the demarcation between the departments and the localities. The hindering role of the old structure has made the growth and development of the enterprise groups reach a crucial point, a point of the intervening of, and opposition to each other, of the old and new structures. At this crucial point, the property ownership relations are still not clear. The enterprises, separated from each other by the different ownership systems and the different departments and different localities to which they are subordinated, have become civilian bodies of a closed stature. Between the enterprises in a group and between enterprises in different groups they still cannot by means of the transfer of property rights effect the allocation, in a better manner, of the production elements and thereby achieve independent but closely-related, unanimous and coordinated movements among the enterprises. The closed stature of enterprises under the public ownership system is presently the fundamental hindrance to the fostering and growth of enterprise groups in our country.

Lagging behind of power mechanism and policy-making mechanism The power mechanism and policy-making mechanism of enterprise groups are management and control mechanisms realized by the link of shareholding rights and creditors' rights and taking a developed market mechanism as the basis. The fostering and development of markets in our country are still far from maturity and the great majority of the enterprise groups are formed by enterprises of different forms under the

precondition of the "three no-changes." As a result, inside the enterprise group there are no property relations and interest relations which determine the operations of the power mechanism and supporting the operations of the enterprise groups is the "autonomous right" or decision-making power "accorded" by the state but difficult to enforce. As a result of the inability to break through the "three no-changes," the enterprises' trend of committing short-term acts cannot be halted, coordination of the product development of the enterprise group is difficult and producing spare parts can hardly keep pace with main production. Since the power mechanism do not perfect, the decision-making benefits can hardly be the best. The enterprise groups are not truly enterprise groups but can only lag behind at the stage of being loose and dispersed enterprise bodies.

Interest stimulation and restriction mechanism not being balanced One of the important achievements of reform of the structure is the generation of an enterprise's interest motive. If it is said that enterprise groups are the results of promotion and pushing of the policy of lateral economic combination, then we would rather say that they are the joint effects of policy and the interest motive of the enterprises. To an even larger degree, it may be said that interest stimulation that has attracted the enterprises to generate an unprecedented "grouping enthusiasm." Nevertheless, due to the confused state of the relations of ownership right and to the imperfection of the power mechanism, the restrictive mechanism of the enterprise groups is extremely unhealthy. Inside the various enterprises of the group, budgetary restriction is weak and the management effects are generally low; operators or managers of enterprises are not under restriction or control, the management responsibilities borne by the enterprises are not in accord with the operation opportunities, and with the lack of the force of pressure on the operators, efficiency is naturally low. Market control and restriction are on an even lower level. In particular, inside the groups the nucleus enterprise and the basic enterprise have no way to effectively carry out the control and management of the enterprises. Thus, on the one side there is a strong interest stimulant and on the other side there is a weak restrictive mechanism and in between the enterprises of the group there is a dilemma.

Enterprise groups not being the main body of market relations An enterprise group of a normal pattern has a perfect market mechanism as the background. Not only must the allocation of the main elements follow the market but also the market activities and market relations must compose the principal part, that is to say, both the enterprises and the enterprise bodies must play the principal part of the market activities. In the great majority of the industries, the state does not directly take part in the market activities. Although our country has already incorporated the market mechanism into the economic operational procedure it has not yet reached the degree of guiding the economic procedure. As it is now, the amount of properties cannot easily circulate or

change hands, the signals of prices are not always true, the state exercises a unified control of the production elements, while the enterprises and the enterprise groups are placed in an isolated market, passively and blindly carrying out their market activities. Under the preconditions of the market parameter being in an exceedingly confused state and the market regulations not being standardized, it is very difficult for the enterprise groups to reorganize the production elements according to social needs and carry out operational activities very efficiently and producing high results.

Summarizing a study of the difficulties facing the enterprise groups of our country, it is found that the key lies in the lack of a perfect market background and the internal structure of the enterprise groups not being standardized.

III

In our opinion, formation of financial enterprise groups signifying industry participating in currency and finance and finance taking part in the enterprises is the inevitable result of the development of socialized large-scale production. Elevation in the degree of socialized production brings along the concentration of production and the daily expanding production activities require raising the ability of the collection and accumulation of capital funds. This thus brings about credit centralization and the joining together of banks. The greater the role played by credit in production development and in heightening the degree of socialization, the greater the dependence of industry on finance and the stricter the banks' control over the enterprises becomes. In order to reduce the risks and increase the receipts the banks are all the more concerned with the enterprises' production and management activities, resulting in their investing in the enterprises as share-holders. The enterprises themselves, in order to obtain large amounts of loans, likewise have to infiltrate into the banks. The result of the association between the two sides not only produces share-holding relations with their bearing on interest and benefits, but also makes necessary personnel participation. Hence, after the development of capitalism into the stage of imperialism, financial capital has come into existence. Because financial capital represents the financial form of the products of socialized large-scale production, Lenin once called it the "entrance gate of socialism." If financial capital is put aside, what the capitalist character of the financial enterprise groups really reflects is the socialized character of production and the loan and credit character of production. We shall then be able to break the outside crust of the capitalist production relations for use in developing our country's socialist commodity economy.

At the present stage in our country, the fostering and organizing of a "common-fortune body" in which banks' funds and industry's funds infiltrate each other, merge reciprocally, and grow jointly will help in breaking the structure of the unitary vertical distribution of banks'

funds, strengthens the lateral merging between the banks and the enterprises, provides maximum utilization of the idle funds of society, and promotes and facilitates the commercializing process of the specialized banks. It is beneficial to the thorough eradication of the demarcation between the departments and the localities, makes a better allocation of resources, develops products in short supply and transforms the backward medium-sized and small enterprises. It is beneficial to softening the administrative restrictions, strengthening the vitality of the enterprises, and realizing the economic operational pattern of the "state controlling the market and the market guiding the enterprises." And it helps in strengthening the enterprises' credits and loans restrictive mechanism and the banks' self restrictive mechanism over the granting of loans, limiting and eradicating short-term acts and standardizing the operational activities of the enterprise groups. By organizing financial enterprise groups, it is possible to make the property relations and interest relations between the constituent enterprise members become closer and more intimate, strengthen the coagulating power of the group, form economic structures which can be both centralized and decentralized, is suited to the dual trend in modern economy of being either large or small and of being centralized or decentralized, and facilitates the rationalizing and elevation of the industrial structure as well as the improvement of the efficiency rate and rate of benefits of the industrial structures. In short, we believe that this type of financial enterprise group which take banks or other large enterprises as the center, and are mutually share-holding, jointly enjoying the benefits and jointly sharing the risks is the most basic constructional form and structural target of enterprise groups in our country. Fostering and organizing financial enterprise groups is the natural choice and basic way out in the rebuilding of our country's enterprise groups.

In our country at present, financial enterprise groups have three growth points: (1) Investment banks branching out by means of the share-holding system from the construction bank; (2) other financial and currency organs outside of the share-holding investment banks; and (3) enterprise groups.

Merging of banks and enterprises and their joint growth may take one of the following three forms: (1) The banks directly creating, controlling certain enterprises or merging or buying in enterprises which are preparing for sale or which have been poorly managed. (2) Enterprises or enterprise groups creating or amalgamating banks. In fact, in our country a portion of the enterprise groups, in the course of their creation or development, have already felt the need to organize financial structures through share-holding relations and have put this into effect. (3) Banks and enterprises jointly put in shares to create a new type of united entity—financial enterprise groups. Both parties are share-holding, both nominate and appoint their directors, and earn dividends according to their shares.

Naturally, at the moment, formation of financial enterprise groups cannot be accomplished instantly; rather the accomplishment should be by steps. The first step: On the basis of the financial organ having established and maintained with certain industrial organs stabilized credit and loan relations, a financial syndicate of a loose and scattered type should be formed, that is, the financial organ, by representing the enterprise group, issues bonds to raise funds and indirectly participates in the internal accounting and management of funds of the enterprise group; next by making a capital and reputational assessment of the enterprise group, certain enterprise groups of high reputation are selected to serve as parties for long-term cooperation and to render aid to the enterprise group's development; mutual merging of funds in the case of surplus or shortage of funds among the enterprises is encouraged and supported; circulation of materials between the constituent enterprises is organized; and organizing of an information network to provide materials and advice for the enterprises' policy making in management to the end that the constituent group members can mutually infiltrate in their functions, rely upon each other for development, jointly elevate themselves as they progress forward and voluntarily join together in organization. The enterprises should be allowed, under rational conditions, to rationally select banks which they can rely upon for association and combination. The second step: On the foundation of a financial enterprise group of a loose and scattered type, we should then organize a common body sharing the same fortune from between an enterprise group of a productive nature and a financial organ—a financial enterprise group of the closely-knit type. The financial organ inside the group is a financial company doing independent business accounting work, being solely responsible for its own profits and losses and taking charge of all the activities regarding funds of the enterprise group; externally, it is a financial organization with the status of a legal entity, enjoys the same power and obligations of other financial organizations, and engages in business competition under the same conditions. Non-financial enterprises inside the group are likewise legal person units of the externally-oriented type and possess the internal coagulating power. They can take various forms in participating in other financial groups.

IV

Fostering a market for property rights and allowing the amalgamation of enterprises constitute the basis for the rebuilding of the enterprise groups in our country.

Competition is an important special feature of a commodity economy. In competition, a portion of the enterprises emerge victorious and develop greatly while another portion funds ends that they cannot meet, are ultimately bankrupt and close their doors. This is only natural in the development of a commodity economy. In the course of competition the victors demonstrate a strong expansionist urge which is primarily manifested in amalgamating with those enterprises which have fared

poorly in management and which have to close their doors in bankruptcy. This enables the victors to expand their production capacity and increase their share of the market. Merging and amalgamation of enterprises are the objective demands and the inevitable results of the development of a commodity economy. At present in western countries, merging and amalgamation of enterprises are still extremely flourishing development strategies among the corporations. Many world-famous large corporations and large financial syndicates have grown to their present status by continuously merging and amalgamating with other enterprises.

In recent years, as a result of enforcement of a series of reform measures such as delegating power, ceding of interests, contracted management and so forth, the situation of insufficient vitality in our enterprises has been somewhat eased or improved. However, these reform measures are being pushed following the pattern of there being no changes in the relations between the existing enterprises and no changes in the structure of the existing volume of assets. It is still difficult to make society's resources circulate or have them reorganized. It is also difficult to reorganize or rebuild the "large and comprehensive" and the "small and comprehensive" organization structures of a supra-safe stature. It is likewise difficult to solve the problems of the enterprises being short in vitality and tending to commit short-term and near-sighted acts.

Merging and amalgamating of enterprises are the natural demands in handling the contradiction in our country between a limited increase in investment and the existing volume of assets lying idle. Research in theories has shown that the development strategies of enterprise groups are mainly three: One is the outer development strategy of amalgamating other enterprises; the second is the internal development strategy of using internal funds, state investments, and bank loans for direct expansion; and the third lies between the above two, that is the strategy of simultaneously utilizing internal and external resources to seek development. In comparison, the external development strategy can more speedily collect together and reorganize the social resources.

At present, the investments in our country on expanded reproduction are relatively limited, but in the market's bottom layer there are still stored some 600 billion yuan of fixed assets and several hundred billion yuan of circulating funds. Result: Many enterprises, because of poor management or earning little profit or suffering losses, have absorbed a large amount of state subsidies; whereas certain of the enterprises which had been initially vitalized have been unable to expand because of shortages in plant buildings, equipment, manpower, and other resources. If amalgamation of the enterprises is allowed and if we can also build the enterprise groups on the basis of the transfer of ownership rights, then it would be possible not only within a short time to effect the rapid improvement in the allocation of resources, expand the production scale and raise the scale benefits

but also to basically solve the structural contradiction between the assets' increased volume and existing volume as well as other difficult problems such as the low rates in efficiency and in benefits and insufficiency in the enterprises' vitality.

In introducing the mechanism of enterprise amalgamation and rebuilding the enterprise groups, we should foster varying amalgamation forms. One is the lateral merging of enterprises producing and managing the same category of products; another is the vertical merging of enterprises producing and managing different kinds of products which have innate relationships; and the third is the mixed merging of enterprises expanding their operation scope (including product categories wholly not related to each other). Merging and amalgamation of enterprises and the transfer of ownership right may take the form of buying up the whole assets or that of purchasing a portion of the assets; the merging initiative may emerge from enterprises which have done well and wish to expand or it may come from enterprises not doing so well in operations and intending to be appended to other enterprises. In addition, there must be permission to purchase the ownership right of assets in kind and also to purchase the use right of assets in kind.

Development of the assets management market so as to shift the government's major concern with the state-owned assets is extremely important to the rebuilding of our country's enterprise groups. On the one hand, the kind of financial enterprise groups we hope to create should take share-holding relations as the basis and exist in the assets management market. This not only can create extremely advantageous conditions for the reciprocal merging of funds between the enterprises but also, more importantly, it opens up the road to the renewed composition of the share-holding rights of the enterprises, thereby making possible the merging and association of enterprises which is of a purely economic nature and devoid of any administrative color. This will make the financial enterprise take an important step forward to reality. The financial enterprise groups derived therefrom possess an innate coagulating power and also flexibility in organization. The source of its coagulating power comes from the reciprocal control of the share-holding rights of the enterprises inside the group while the flexibility comes from the fact that in the assets management market the buying and selling of securities makes possible the transfer of ownership rights, thereby gradually eradicating the unstable character and the ossifying of the organization forms of the existing enterprise groups and enterprise public bodies. By so doing, enterprise groups, by means of this intermediary of the assets management market and based on the market changes and operation needs, can readjust their scale of operations and the degree of reciprocal control among the group constituents. This puts the enterprise groups in a state of constant readjustment and improvement.

On the other hand, reform of the management mechanism of the state-owned assets and the gradual realization of the shift of the government's management of the

enterprises from the "production operation" type to the "property operation" type will shift the main point of concern with state-owned properties from the goods in kind form to the value form and the handling power of the means of production will be wholly endowed on the independently managed enterprises. After completion of this conversion, the government's main point of concern will be the integrated character of the properties. The integrated character of the value form of state-owned properties can, by means of the evaluation and assessment of the assets, be made independent and fixed in the form of shares. The enterprises have full responsibility for the integrated and safe character of the state-owned properties. The character of increase and multiplying comes from the state, through holding the shares of the enterprises, obtaining share interests and dividends. Moreover, the state may, by means of reinvesting its earnings expand the gross volume of the state-owned assets and thereby reap even larger benefits. By so doing, the enterprises will be allowed to obtain the actual handling right of the state's properties in kind and the circulating character of the means of production demanded by the enterprise groups will follow up and be realized.

Naturally, rebuilding of the enterprise groups in our country needs the coordinated reform from all sides. Other reform measures such as making corporations of enterprises, commercializing of banks, perfecting the market structure, and so forth, should all proceed at the same pace.

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[Article by Wang Haibo [3076 3189 3134], edited by Liu Qichang [0491 0366 2490]: "Thoughts on 'Further Emancipate the Mind' and 'Further Liberate the Productive Forces'"—passages in boldface as published]

[Text] At the 13th CPC National Congress, Comrade Zhao Ziyang pointed out: "'Emancipate the mind, seek truth from facts and unite to look forward' is still our fundamental slogan" ¹ Afterwards, he further pointed out "Further emancipate the mind and further liberate the productive forces" ² Again later, at the 2nd Plenary Session of the 11th CPC Central Committee, he pointed out once more: "We must further emancipate the mind, further stabilize the economy and further deepen the reform, so that our country's productive forces may be more greatly liberated" ³ At the present stage of our country, this is an exceedingly important topic. This article will make a crude and shallow analysis of the innate relations between further emancipating the mind, further deepening the reform and further liberating the productive forces.

I. Topic of Historical Materialism

Further emancipating the mind, further deepening the reform, and further liberating the productive forces constitute a topic in historical materialism. To illustrate this point, the analysis should be carried out from two sides.

First, actual practice in socialism has shown that our country's socialist basic economic structure is suited to the level of the development of the productive forces. However, for a prolonged period, the concrete manifestation of this type of basic economic structure, that is, the traditional economic management structure, has impeded the development of the productive forces. Hence, to liberate the productive forces, we must reform the economic structure.

This is related to the important development of historical materialism, but this point does not seem to have attracted people's universal attention yet while in theory discussions on it have not been fully developed. Hence we must analyze its major points.

According to historical materialism, productive forces determine production relations while production relations also play a role in promoting or impeding productive forces. However, the traditional theory that has circulated for a long time in the scholastic circles in our country has not differentiated between production relations' basic system and their concrete manifestation, that is, the economic management structure. True, the latter is determined by the former, but once the latter is generated it possesses a relatively independent character and is differentiated from the former. Since the traditional theory overlooks this difference, what they say about production relations playing a role of promotion or one of impediment to productive forces in reality refers only to the basic system of production relations and negates the role played by the concrete manifestation of production relations in the development of productive forces.

The actual practice in socialist construction in China has attested to the above-mentioned differentiation. However, if we limit this differentiation to only a socialist society, then the significance of the topic will be reduced. In fact this topic is likewise applicable to a pre-socialist society. For example, in the history of our country, the shift from a feudal economy to a landlord economy was an important change in the economic structure within the realm of the system of feudalism. Although this reform did not fundamentally change the basic system of the feudal economy, it did change the economic structure for the better, and although this reform did not basically solve the contradictions between the landlord class and the peasant class, it was suited to the demands of the development of the productive forces at the time and did push the development of the productive forces. Again for example, when a capitalist society evolves from free competition to the stage of monopoly, the

economic structure also undergoes an enormous change. In the stage of free competition under capitalism countries of the capitalist class enforce the macroeconomic management pattern of complete freedom, that is, the market economy. Since the 1929-1933 world capitalist economic crisis, particularly since World War II, capitalist countries one after another have carried out a market economy of a planned nature to a definite degree. This reform did not basically change the fundamental system of the capitalist economy but managed to improve the economic structure. This reform did not basically solve the contradiction between the capitalist class and the proletarian class but in part met the demand of socialization of production and pushed the development of the productive forces.

Maybe this can explain why after World War II, the productive forces of the various imperialist countries have all achieved an unprecedentedly large development, that is to say, outside of the various and many important factors (such as a revolution in science and technology), the changes in the capitalist economic management structure constitute an important cause for this development. Nevertheless, traditional theory overlooks the essential difference between the basic system and the management structure of the production relations and hence cannot see the enormous role played by the capitalist economic management structure in the development of the capitalist productive forces. Naturally, it is disturbed by the facts of such an enormous development.

The foregoing analysis shows: 1. It is necessary to differentiate between the basic system and its manifestation, that is, the economic structure of the production relations; 2. In conjunction with this, there are two sides to the determination role of the productive forces on the production relations, this is, the determination role on basic system and the economic structure of the production relations; 3. There are also two sides to the promotional or impeding role of production relations on the productive forces, that is, the promotional role or impeding role of the basic system and economic structure of the production relations on the productive forces. The above-mentioned conclusion may be considered a universal truth of historical materialism applicable to the various social statures and also may be considered an enormous development of historical materialism brought along by the practices in the reform of the socialist economic structure. The further deepening of the reform and the further liberation of the productive forces we talk about here are the employment of the theory of historical materialism.

Second, actual practices in socialism have also shown: The bondages of the various kinds of old ideas are disadvantageous to opening up the reform of the economic structure and also to the development of the social productive forces. To carry out reform of the economic structure and to develop the productive forces, it is necessary to emancipate the mind.

This is related to the understanding and application of historical materialism. According to historical materialism, social ideas and understanding reflect the existence of society and play a counteraction on the existence of society. Advanced ideas social development while regressive ideas impede social development. Speaking from a certain common point, in history any important and big social reform invariably bore the task of breaking old ideas and developing new ideas and gave a lesson on emancipation of the mind. The purpose of developing the reform on the economic structure of our country's socialist commodity economy likewise faces this task.

However, the emancipation of the mind mentioned here has the special feature of the era. Generally speaking, this special feature was bred after our proletariat class had seized political power and basically completed the socialist transformation of the privately owned means of production. It was advocated by the political party of the proletariat class, was for the basic interests of the people's masses, and was particularly advocated after the 3d plenary session of the 11th CPC Central Committee had definitely fixed the correct ideological line. It had the quality of seeking truth from facts and had the development of the productive forces as the starting point, the lodging point and the sole standard. Just as Comrade Zhao Ziyang pointed out: "Emancipating the mind naturally is not advocating going off into wild flights of fancy. Precisely the opposite; the essence of emancipating the mind is to dare to seek truth from facts. Such acts as indecision and inability to say yes or no regarding things favorable to the development of the productive forces and likewise daring not to remove, because of various considerations, things that are disadvantageous to the development of the productive forces. These we may call as not seeking truth from facts, or, in other words, non-emancipation of the mind." ⁴ Hence, emancipation of the mind currently advocated, compared with that advocated in the year 1958 of the Great Leap Forward, though same the in wording, are different in principle. Although the "emancipation of mind" advanced in the era of the "Great Leap Forward" was also meant to explore the concrete road to the building of socialism and to reflect the strong wishes of the people's masses to change our country's backward economic and cultural conditions, yet the actual practices carried out under this slogan went against the objective economic laws, and greatly disrupted and damaged the productive forces. Therefore, the slogan "emancipating the mind" advocated in the past essentially speaking was a product of the leftist line and a slogan of historical idealism; whereas the present slogan called forth by the CPC has its essence in seeking truth from facts and is based on the standard of benefitting the development of the productive forces. It is the basic sign of a special feature of historical materialism. If this point is overlooked then it would be equivalent to discarding its soul.

II. Scientific Conclusion of Experiences in Actual Practices in Reform of the Economic Structure

To further emancipate the mind, further deepen the reform and further liberate the productive forces are also

the scientific conclusions of the experiences in the initial actual practices in reforming the economic structure. We need only to briefly review the course of events we have passed through in the past 9 years and more: Emancipating the mind pushes the reform of the economic structure and again pushes the development of the productive forces, and we can clearly understand this point.

Traditional theory negates that socialist economy is a commodity economy. But due to our firmly insisting on emancipating the mind and seeking truth from facts in concluding the actual experiences in socialism, we have definitely come to understand that socialist economy is a planned commodity economy and this again is first of all recognizing that under the socialist system there inevitably exist various kinds of economic constituents which have the socialist public ownership system as the main body and also that socialist state-owned enterprises are related to commodity producers. This is because that by so doing we have come to clearly recognize the source of the socialist planned commodity economy. In conjunction with this, we have broken through the traditional theory of limiting the commodities under the socialist system to the scope of consumer goods, outside of residences, and definitely come to the understanding that commodities under the socialist system embody not only all consumer goods including residences but also the means of production, that not only products are included but also included are funds, services, technologies, information, real estate, and other production elements, and that not only the production elements are included but also the property ownership right of the enterprises which are the social basic production units. Again, in conjunction with this, we have come to realize that a socialist market includes not only the products market but also the production elements market, and the market for the transfer of the ownership right of enterprises, that is the socialist market structure. And also in conjunction with this, we have recognized that the state's macroeconomic management be converted from principally direct regulation and control to principally indirect regulation and control and thereby establishing a mechanism for the state to regulate the market and the market to guide the enterprises' economic operations.

Emancipation of the mind has pushed the start and the further development of the reform of the economic structure of our country. Since 1979, our country has achieved enormous successes in the reform of the economic structure. For example, in the gross output value of the various industrial enterprises, the proportion occupied by the state-owned industries has dropped from the 80.8 percent in 1978 to 57.5 percent in 1987 while the proportion of the industries under the various other ownership systems rose from 19.2 percent to 42.5 percent. By the end of 1987, 82 percent of the large- and medium-sized state-owned industrial enterprises and over 60 percent of the large and medium-sized state-owned commercial enterprises had enforced various kinds of the management responsibility systems such as

contracting, leasing, and renting while 80 percent of the small state-owned commercial enterprises had been changed to collective management or converted into collective ownership, some having been leased to collectives or individuals; and 68 percent of the state-owned industrial enterprises had enforced the plant head responsibility system.

Development of the reform of the economic structure has made China's national economy begin to show the good trend of a stabilized growth. For example, on the side of the growth of the national income, in 1987, the actual growth rate was 9.3 percent, higher than the growth rate of 7.9 percent in 1986. In 1987 the realized profits and taxes of state-owned industrial enterprises in the budget increased by 9.9 percent over the preceding year; the turnover period of fixed circulating funds was shortened by 3.7 days; and the labor productivity rate of the whole staff went up by 7.6 percent. In consumption, in 1987, the growth in whole society's consumption demand was lower by 3 percent compared with the growth in the national income, thus changing the pattern in the past several years of the former being faster than the latter.

In investments, in 1987, the growth rate in the gross value of whole society's investments in fixed assets was 15.9 percent, lower than the growth level of 18.4 percent in 1986; the gross volume of use of circulating assets was changed from the rise in 1986 to a drop of 19.5 percent; while compared with 1986 the accumulation rate dropped by 0.4 percent. In conjunction with the changes in consumption and investments, the discrepancy between supply and demand in the gross volume of the national income was reduced. In 1987 the GNP was 915.3 billion yuan and the expended volume amounted to 941.7 billion yuan. Calculated on the prices of the year, the growth in the supply of the national income was 15.9 percent which was faster than the growth of 12.1 percent in the expended amount of the national income. Due to the influences of the overly large discrepancy amounts in the two preceding years, the discrepancy between supply and demand in the 1987 national income was still 26.4 billion yuan which was much less than the discrepancy amount of 51.2 billion in 1986. This situation illustrates that 1987 began to manifest a situation of speed being unified with effects and growth unified with stability.

It can thus be seen that emancipation of the mind pushes the development of reform of the economic structure and thereby pushes the development of the economy. It is able to do so because: First, emancipation of the mind follows the objective economic laws. For example, expansion of the understanding and knowledge of socialist commodities from the means of consumption to the means of production, again to the important elements of production, and again to the ownership right of the enterprises reflects the objective demands of the development of the commodity economy; and second, emancipation of the mind follows practice, understanding,

again practice and again understanding which is the road of understanding dialectics materialism.

III. Need For Realization of Socialist Modernization

Further emancipating the mind, further deepening the reform, and further developing the productive forces are all needed for the realization of socialist modernization. The traditional economic structure is at present the principal hindrance to developing our country's social productive forces. Despite the fact that reform of our country's traditional economic structure has already achieved enormous results, it has not yet been basically completed. Hence, to further develop the social productive forces, and realize socialist modernization, it is necessary to further deepen the reform. And to further deepen the reform, it is necessary to further emancipate the mind. At present the problem is: On the one hand, the task of deepening the reform demands further emancipating the mind, and seeking the truth from facts in probing for the road to establishing a new economic structure. This is because: First, although we have already fixed the pattern and blue print for the target of reform of the economic structure, we must still not that regarding this problem there still exist many inevitable kingdoms and deepening the reform demands that these kingdoms be converted into free kingdoms. Second, following the deepening of the reform there will still be problems which are more complex and more difficult. For example, price reform is much more complex than delegation or expansion of decision-making power or cession of interests and its solution is much more difficult. Third, replacement between the old and new structures and replacement between the old and new strategies for economic development are interwoven which, plus errors in the course of work, will produced many problems urgently needing solution. For example, the existing monetary inflation caused by investment inflation and consumption inflation has become the main factor for economic instability and has caused a serious hindrance to deepening the reform. Furthermore, for example, on the one hand, at present the savings deposits of urban and rural residents have already amounted to over 300 billion yuan, besides over 100 billion yuan of cash in hand, all of which has caused an enormous pressure on market supply; on the other hand, the investments in basic industries and in basic facilities urgently needed for economic development are sadly insufficient. And again for example, in the cities and towns there are some 15 million people who "hold their posts but are virtually unemployed," whereas at the same time the enterprises lack front-line workers to the tune of some 15 million men, and so on. Fourth, in conjunction with the above-mentioned points, among our country's economic and scholastic circles there are many and great disputes on many of the problems concerning deepening of the reform. The above-mentioned situation illustrates that if we do not further emancipate the mind or seek truth from facts in carrying out the probing work, then it will be difficult to find a correct method to solve the many problems regarding deepening of the reform.

On the other hand, at present many factors still exist which bind people's mind and prevent people from seeking truth from facts in probing the road to deepening the reform. The main factors are: First, at the starting stage when we carried out reform of the economic structure, we already faced many theories and ideas hindering the reform. For example, there were individual conclusions harboring empty thoughts of former people constrained by historical conditions, making doctrinaire interpretation of Marxism and sundry erroneous viewpoints on Marxism and socialism; onesided emphasis on the antithesis between socialist commodity economy and capitalist commodity economy and overlooking the common points between the two; ideas of natural economy and egalitarian ideas of the petty producers which were left over from the feudal society, and so forth. It is true that in the course of the reform of the economic structure, we have continuously broken the hindrances caused by these ideas, but there is no possibility of these ideas disappearing altogether within a short period of time and it is likely that their effects will stay for sometime to come.

Furthermore we must point out: The further the reform is deepened the more thoroughly these erroneous ideas should be eradicated or these erroneous ideas would still continue to appear to interfere with the reform. For example, since 1979, the reform that we have carried out on the state-owned industrial economy in general passes through the following stages: expansion of the enterprises' decision-making power embodying the important special feature of the enterprises' self-retention of profits on a percentage basis, tax-in-lieu-of profits, promoting various forms of management responsibility systems including contracting and leasing as well as the amalgamation of enterprises that has begun to appear at present. Speaking from the standpoint of breaking and removing the certain errors mentioned above, amalgamation of enterprises is the most deepgoing. If we onesidedly emphasize the difference between socialist economy and capitalist economy, then it would be very difficult to approve the amalgamation of enterprises existent in a socialist society. In reality both socialist economy and capitalist economy are advanced commodity economies and the two have common economic procedures including the amalgamation of enterprises. This is because under the socialist system, amalgamation is also an important measure to increase and multiply value in enterprises acting in their capacity of commodity producers, and is the natural consequence of the competition among themselves; at the same time it is also a "must" procedure for society to readjust the volume of its holding of funds, to realize the superior allocation of resources, and to develop the productive forces. Naturally, under the socialist system amalgamation of enterprises is basically different from that in a capitalist society. In the case of the latter, it is a life-and-death competitive relationship between capitals (particularly between large capital and small capital) and in fact is "the big fish swallowing up the small fish" (strong enterprises eating up the weak enterprises). As for the

former, it is a relationship between socialist enterprises which contains both the mutual-helping side and the mutual competitive side. Regardless of the form of the amalgamation, there exists the relationship of the "big fish helping the small fish" (strong enterprises helping the weak enterprises).

Second, in a socialist economy, between people there does not exist a basic conflict of interests but partial differences in interest do exist. Thus, speaking as a whole and in the long run, deepening of the reform will receive people's support but within a fixed time limit, it may meet with people's suspicion, contradiction and opposition. For example, following the perfection of such management responsibility systems as contracting and leasing, the disparity in the level of remuneration between the operator and the producer is likely to widen and this may cause dissatisfaction on the part of a portion of the producers. Deepening of the reform must solve the problem of compensation being in a reverse form between the mental worker and the physical worker and consequently a portion of the latter may think differently. Expansion of economic democratic right may suffer from boycott by people who had enjoyed feudal special privileges or who were among the bureaucratic circles. Deepening the reform may call a halt to the irrational increase in the workers' income caused by the enterprise's short-term acts. This will be opposed by certain people, and so on and so forth.

We should also see that the effects of the individualistic ideas of a capitalist class still exist. The frightened spiritual stature in the minds of certain people caused by the "leftist" errors which have existed can still be found and certainly cannot be readily eradicated. In particular, for sometime we must engage in the struggle against liberalization of the capitalist class. All this can cause people to have this or that kind of apprehension and also generates the problem of not being able to seek truth from facts in the deliberations on deepening the reform.

Third, since the 3d Plenary Session of the 11th CPC Central Committee, the reform of our country's economic structure has achieved successes known throughout the world. There is no question about that. Nevertheless, we still need to make a concrete and historical analysis of the many reform measures. For example, in the rural villages the system of assigning production responsibilities on the household basis with remuneration linked to output has achieved enormous historical successes in pushing agricultural production and development in our country, but following the development of the rural economy being commercialized and socialized, this system has gradually revealed its limitations in certain respects (such as its being disadvantageous to the realization of dimensional economy and rationalizing of the rural industrial structure), and should be improved according to needs and possibility. Again, in the case of tax-in-lieu-of-profits, it has played an active role in definitely clarifying the economic interest relations between the state and the state-owned enterprises, but

the direction of our reform from now on is not the unification of taxes and profits; rather it is making taxes and profits flow in separate channels. As for such reforms as institution of the "double-track system" in the prices of the means of production, they are obviously of a transitional nature. Regarding all these problems met with in the course of moving forward, under the conditions of the existence of the above-mentioned two kinds of ideological hindrances, people not only cannot make a concrete analysis of them in conformity with objective laws but also tend to treat them as perfect and faultless, thereby hampering the further deepening of the reform.

Fourth, for the sake of meeting the needs of developing the socialist commodity economy, in recent years we have begun to learn from and copy the advantageous elements of western economics. And it should be admitted that the main current of this type of work has played a beneficial role in the development of theories on socialist commodity economy in our country and in pushing reform of the economic structure. However, we must also note: There have been instances of the wholesale copying of western methods. Among them, the most typical illustration is the viewpoint of employing the method of monetary inflation to develop socialist economy and the belief that the method can proceed along with and without contravening the deepening of the reform. These viewpoints are not in harmony with the demands of the essential nature of a socialist economy; they depart from our national conditions of the social gross demand of our country surpassing the social gross supply and are disadvantageous to our country's economic development and reform of the economic structure. It may be said: Blind and wholesale copying of western methods is a sort of ideological bondage and should be among those things eradicated.

The four kinds of conditions mentioned above are all bondages of people's mind. Speaking from this context, in order to further deepen the reform and follow up with further liberating the productive forces, it is necessary to advocate the further emancipation of the mind. This is sorely needed in realizing socialist modernization.

In short, just as Comrade Zhao Ziyang said: "In the past 9 years, emancipation of the mind has brought along liberation of the productive forces. From now on, in order to further liberate the productive forces, we still have to depend on further emancipating the mind"⁵ In his "Government Work Report," Comrade Li Pang also pointed out: "Since the 3d Plenary Session of the 11th CPC Central Committee, the various correct construction guidelines and reform programs have all been products of the emancipation of the mind; from now on for construction and reform to develop smoothly, we still have to take the further emancipation of the mind as the lead."⁶ Our workers in economic theories and those engaged in actual economic work should actively

respond to this call and have it thoroughly implemented in the work on reform of the economic structure and development of the economy.

Footnotes

1. Zhao Ziyang, "Proceed Along the Road of Socialism with Chinese Characteristics," People's Publishing House, 1987 edition, p 62
2. RENMIN RIBAO, 7 February 1987 p 1
3. Ibid, 21 March 1987 p 1
4. Ibid, 7 February 1988 p 1
5. Ibid, 7 February 1988 p 1
6. Ibid, 15 April 1988 p 1

Ways To Reduce Excess Demand, Disposable Income Discussed

40060387b Beijing JINGJI RIBAO in Chinese
15 Jun 88 p 2

[Weekly Market Commentary by Yan Kalin 7051 0595 2651: "Market Supply and Demand: How To Reduce the 90 Billion Yuan Demand-Supply Gap?"]

[Text] If we do not act quickly, a 90 billion yuan gap will occur in China's economy this year.

This gap means that urban and rural residents will not be able to exercise their purchasing power, which averages about 60 yuan per person, and that there is a tremendous shortfall in actual supply of goods relative to social commodity purchasing power.

Economic law says that workers' monetary incomes cannot exceed output levels, for any excess income is like a "rubber check"—there are no goods for social purchasing demand to chase. Urban nonwage monetary incomes have risen inordinately fast in recent years due to the excessive distribution of bonuses and subsidies by enterprises, the incomes of self-employed urban and town workers have risen greatly, and residents' consumption choices are extremely limited—these and other factors have caused social commodity purchasing power to greatly exceed actual supply of goods. The State Statistical Bureau recently reported that purchasing power exceeded supply by 74.4 billion yuan in 1987 and will exceed supply by 90 billion yuan in 1988.

The rise in this gap is alarming. Experience repeatedly shows that, besides preventing the masses from exercising their purchasing power, such a gap can exacerbate contradictions between supply and demand, drive prices upward, even cause serious inflation, adversely affect the stability of the economy and the people's lives, and create difficulties for reform. Clearly, we must reduce

this gap as fast as possible—the sooner and more aggressively we do so, the better. Will accelerating economic growth suffice? Well, a high economic growth rate naturally increases aggregate social demand and alleviates contradictions between supply and demand, so we should not oppose a healthy growth rate. For example, last year's 14.6 percent rise in industrial output was a healthy rate because (1) economic results improved, and the number of enterprises operating in the red declined; (2) overstocking was rare, and growth in sales revenue greatly exceeded the rise in output; and (3) state-owned enterprises included in the state budget showed marked increases in growth. So, we can turn our question around and affirm that, if last year's growth rate had not been so high, the gap between supply and demand would certainly have been even greater. Thus we should applaud this higher growth, which was selective and rooted in improved economic results. Central leaders have said that a variety of indicators suggest that conditions are ripe for China to develop a little faster. Of course, there are also limits to how fast we can go. And reliance solely on rapid economic growth to fill the supply-demand gap will be a slow process. It is estimated that, even after we reduce the rate by which growth in demand outpaces growth in supply, it will take another 3-5 years or even longer to reduce the 90 billion yuan gap. Thus while accelerating economic growth, we must also consider other measures.

Besides measures that everyone has mentioned—for example, firmly reducing the purchasing power of social groups, strictly controlling excessive bonus and subsidy distribution, strengthening control over the monetary incomes of individual or private operators, and so on, we must give special attention to and quickly initiate sale of publicly owned housing. At the beginning of this year, relevant authorities unequivocally stated that new housing must be opened for sale before it is offered for renting, that we must strive to sell more housing than we rent, and that we must also encourage people to purchase old housing. This work, however, is proceeding slowly and has not even begun in most localities. If we can get this program moving faster and sell the 100-plus million sq meters of housing that will be completed this year, we can soak up 15 billion yuan in purchasing power. And if one-half of the total 2.4 billion sq meters of old housing can be sold and if cash down payments average 30 percent, we can siphon off 70 billion yuan or so in a short time (and another 13 billion yuan each year for the next 10 years). Clearly, the 15 billion yuan netted from sales of new housing and the 70 billion obtained from sales of old housing will pretty much fill up that 90 billion yuan gap. Thus we should realize how important accelerating housing reform is to our efforts to alleviate the contradiction between supply and demand, to stabilize the economy and to support reform and speed up the sale of public housing.

We should also consider increasing interest rates on savings deposits and bonds, issuing more stock and permitting and encouraging investment by private individuals. Under normal conditions, purchasing power

that has no goods to chase is usually put into savings or is invested in production. But since the beginning of this year, as the inflation rate has surpassed interest rates on bank savings deposits, the attractiveness of savings accounts has declined, and there have even been cases in a few economically developed localities where the masses have rushed to banks to withdraw their deposits. Especially noteworthy is the fact that urban and rural residents have more than 120 billion yuan in cash on hand. So we must urgently begin considering how to attract this purchasing power into and appropriately readjust interest rates on savings accounts. And it is especially imperative that we issue more stock, establish stock markets, and permit and provide legal protection for investment by private individuals so as to guide consumption funds into production.

In sum, faced with a potential supply-demand gap of 90 billion yuan, we must remain sober-minded, not dodge the issue but emphasize it, fully exploit the advantageous conditions created by reform and our opening up to the outside world, mobilize the initiative of all quarters and seek rational solutions to the problem as quickly as possible.

12431

FINANCE, BANKING

Articles Examine Financial, Price, Tax Reform

State of Financial Reform

40060362 Shanghai SHIJIE JINGJI DAOBAO in Chinese 13 Jun 88 p 5

[Article in "Finance and Banking" Column by Hung Jiaguan 3163 5521 4619 "The Present State and the Furtherance of Financial Reform: Let the Banks Fulfill All Their Functions—Solve the Real Economic and Financial Problems—Let Reform Theories Guide Financial Reform Measures."]

[Text] The financial sector has gained prominence in recent years, and financial structural reform has picked up speed. Shanghai was the financial center of the old China, and remains a major financial city today. Shanghai's citizens are very conscious of the changes brought by the financial reform. Indeed, what changes have been made in the financial sector? What is its present state? The situation can be summed up as follows:

One, the reform has lifted all kinds of restrictions forced upon the socialist banks and expanded the realm and business scope of banking. In the past, banks were limited to a narrow business scope, and their loan activities were strictly controlled. Today, the situation has improved a great deal. Loans are no longer limited to short-term loans, provisional loans, or loans in excess of the current fund norm. Instead, they now include short- and medium-term facility loans, that is, loans for technological transformations and capital constructions.

There are new types of deposits as well as new varieties of loans. In support of the development of an externally-oriented economy, banks are also actively attracting foreign funds, granting foreign exchange loans, and funding the development of export goods which earn foreign exchange. All these measures have positive effects on revitalizing and revamping Shanghai's economy as well as on the implementation of the policy of opening up to the outside world.

Two, we have established a central banking system, perfected the financial system, and aroused the enthusiasm of all types of financial institutions. Today, a socialist financial system headed by the central bank and dominated by state banks but which also accommodates a host of insurance companies and other financial institutions which share the various fiduciary functions has begun to emerge. Under this system, the specialized banks, the comprehensive Communications Bank, the investment-trust companies, the insurance companies, and the urban and rural credit cooperatives have shown unprecedented enthusiasm in developing businesses and expanding operations, and they have become complex, diversified, and multi-purpose financial institutions.

Three, we have made use of market mechanisms carefully and developed the financial market steadily. To develop the commodity economy, naturally, we have to utilize the market mechanisms. The development of lateral economic ties also requires a lateral flow of funds, and thus the fund gathering activities have been organized into a market. The financial market which was set up in the fall of 1986 is now bridging different systems and has become more comprehensive and more open.

Four, we have implemented a monetary policy and exercised macroeconomic control at several levels. After several years' practice, we have learned that it is indeed a formidable task to establish an effective, versatile, and intricate financial control and regulatory system. At present, the most important thing is to sort out the relationship between the nationwide tightening of credit and money supply and the development of the regional economies as well as the relationship between controlling the total credit and money volume and making structural adjustments.

It is obvious that financial reform has made much progress in recent years, and the results have been remarkable. But strictly speaking, these reforms are still superficial, and we need to proceed to more in-depth reforms.

Why do we need more thorough reforms? Where do we begin? Personally, I think there are three major areas of consideration:

First, we should determine whether the reform has a foothold in allowing banks to fulfill all their functions. After several years' reforms, the banking system is finally

allowed to play a bigger role in gathering and circulating funds; however, so far it has not been given enough leeway to guide the flow of funds or effect more efficient use of funds, and its role in modifying social demands is very limited and requires much greater efforts in the future. These functions deal with the existing problems in the financial system, and in order to implement more thorough reforms, we must allow banks to fulfill such functions.

Secondly, we should determine whether the reform can solve real economic and financial problems. Inflation is the major economic problem today, but the financial situation is critical too. Between January and April of this year, bank loans of all kinds have increased significantly, but net withdrawal of currency from circulation is at an all time low. Striving to create an environment where there is financial and price stability for the sake of the socialist modernization is the solemn responsibility and sacred duty of the financial sector. In summing up the reform experiences and studying ways to make the reform process more thorough, we must strive to solve the practical problems.

Thirdly, we should determine whether the reform theories can guide the actual reform process. In recent years, we have discovered new theories on financial reform, but as yet we have made no major breakthrough with a mature theory that really hits the spot. Is banking capable only of responding passively to economic changes, or is it highly reactionary? Must financial reform trail behind other reforms in the economic realm, or is it capable of giving impetus to other reforms and "winning the game with one skillful move"? Is it tenable under China's present conditions to raise the interest rate to above the inflation rate as a premise to more thorough reforms? Is it really possible to allow the central bank to become independent and formulate autonomous monetary policies to strictly limit the money supply? Only if we can deal with these and other issues with policies and programs which are based on convincing theories can we hope to implement more thorough reforms.

These are formidable conditions, but it will be commendable and worthwhile to try our best to comply with these external demands.

Effects of Money Supply on Price Reform

40060362 Shanghai SHIJIE JINGJI DAobao in
Chinese 13 Jun 88 p 5

[Article by Hu Haiou 5170 3189 7743: "The Effectiveness of the Control of the Total Money Supply Can Determine the Outcome of Price Reform"]

[Text] We must be fully aware of the close relationship between the outcome of price reform and the effectiveness of the control of the total money supply. If there are technical flaws, or if the control is too lax, it will adversely affect product prices.

Without a doubt, no one will dispute the significance of controlling the money supply. However, we still have not mastered the technique or solved the problem of how to exercise control, and as a result we have often lost control of the money supply. This is manifested in three areas:

1. The various levels of banks are placed under dual leadership. In addition to having to answer to the central bank, the various levels of banks are also under the control of all levels of government. Out of self-interest, local governments often use administrative channels to influence the way banks handle their funds, and usurp funds which otherwise would have been put into more deserving projects. In order to minimize the damage, the central banks is often forced to increase funding, thus inadvertently expanding the credit volume.

2. Flaws in the application of the principle of material guarantee. If prices remain constant, it is very likely that the principle of material guarantee can make fund movements compatible with commodity movements. However, under the condition whereby enterprises are allowed to determine product prices, the application of that principle may force the banks to favor loans to products whose prices are constantly rising. As products change hands, the loan amount accumulates but the product quantity remains unchanged, and this creates an upward price spiral.

3. The imperfect reserve fund system. China's reserve fund system designates funds deposited by specialized banks in the higher level banks as reserve funds, and interbank transactions do not involve the reserve accounts. As a result, this country's specialized banks often hand over their derivative deposits to the higher level banks as reserve funds, and one bank can use the derivative deposit of another bank to generate more derivative deposits, and so the specialized bank system has immense capacity to create more credit, which is one of the main reasons for the loss of control of the credit volume.

The aforementioned measures were created at first for the purpose of controlling the money supply. In practice, however, they failed to fulfill their intended purposes. Even in the years when the total money supply was being tightened, money continued to trickle down. This means that we must improve the technique we use to control the money supply to improve its effectiveness in order to ensure the success of price reform. Specifically, we should adopt the following methods:

1. Put the banking system under "centralized leadership." Each level of banks answers only to the level immediately above it. Each bank should be allowed to decide, without interference from the various levels of government, whom to lend money to and how much it wants to lend, based on its own money supply. Hopefully, this will minimize the chance of having to force the central bank to raise the fund quota.

2. Change the implication of the principle of material guarantee. We should stipulate that the sales unit's purchase price of a commodity is the purchase unit's material guarantee. This, in fact, means making loans based on the original price of the commodity, and no matter how many times the commodity changes hands, and no matter how high the final sales price may be, the amount of bank loan remains unchanged. This basically prevents rising product prices from driving up the money supply.

3. Perfect the reserve deposit system. We have to stipulate that only the central bank's liabilities are considered reserve funds. Interbank transactions must go through the reserve accounts. Because the specialized banks' credit activities do not affect the central bank's liabilities, their credit scale cannot exceed the limit allowed by the reserve requirement. In addition, if one specialized bank increases its credit volume, another specialized bank must decrease its volume. In this way, the central bank can control how much extra credit the specialized banks can create, and only in this way can we hope to keep the money supply under control.

Reform of Interest Rate System

40060362 Shanghai SHIJIE JINGJI DAOBAO in
Chinese 13 Jun 88 p 5

[Article by Wang Huaqing 3769 5478 1987: "Reform the Interest Rate System Cautiously: The Interest Rate System Is Maladjusted, but Compared to Reform of Product Prices, Reform of the Interest Rate System Is Even More Difficult—Therefore Reform of the Interest Rate System Requires Caution."]

[Text] As the commodity economy develops, and the price system is gradually being straightened out, the interest rate system seems more and more maladjusted. The rate of interest is too low, the system itself is irrational, and the system which regulates the interest rates is riddled with problems. Therefore, we must reform the interest rate system.

Compared to the reform of product prices, reform of the interest rate system is much more difficult; therefore, we must be careful: (1) First, we should raise the interest rates. Normally, the rate should be raised to the level of the real rate of interest, but because the price system is still undergoing reform, as a transition, the interest on one-year time deposits can be raised to the same level as the financial bonds (at the same time, we must prohibit early withdrawal of time deposits.) Loan rates may be 2 to 3 percent higher than the rate on deposits. However, the government should subsidize the iron and steel, the energy, and other vital basic industries by extending low-interest loans. (2) Interest rates should be variable based on the aforementioned rates. The range of rate fluctuation is to be determined by the central bank based on the product price level, the rate of economic growth, the interbank loan rates, and the civilian interest rate. Rates may change every 3 to 6 months, and a new rate

will be set for each period. (3) Now that treasury bonds are transferable, we can issue one-year treasury bonds which pay a slightly lower rate of interest than the regular savings accounts, and rely on the treasury bonds' liquidity and credibility to attract investors. We must strictly control the issuance of financial bonds. In principle, only those banks which, for historical reasons, have a shortage of funds in home currencies may issue bonds. They can pay a slightly higher rate of interest than the savings accounts. We should set an upper limit to corporate bond rates, generally, using the upper limit of the variable loan rates as basis. Corporate bonds are more risky, and we can gradually set up three different levels of investments: treasury bonds, savings deposits (financial bonds,) and corporate bonds. These financial instruments pay different rates of interests, entail different amounts of risk, and have different degrees of liquidity, and with them we can gradually straighten out the interest rate relationship between direct and indirect fund gathering and distribution. (4) We have to stipulate the upper and lower limits on loans and deposits, that is, set an upper limit to the interest paid on deposits and a lower limit on loan rates. The interest rate reform should be propagated uniformly around the nation, and should be implemented within the next 2 years. Whether total decontrol of the interest rate is feasible will depend on the development of the commodity economy, the perfection of the financial market, the progress in operating specialized banks as enterprises, and the ability of the central bank to control the situation.

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MINERAL RESOURCES

Gold Mines Discovered in Gansu

40060413 Lanzhou GANSU RIBAO in Chinese
14 Jun 88 p 1

[Article by staff reporter Wang Junxiu 3769 1498 4423]

[Text] According to the provincial government's gold prospecting office, major breakthroughs have been achieved in geological prospecting for gold in Gansu in the past 2 years. Up to now, 128 gold mines have been discovered in the province, and gold reserves of various classes rank sixth among China's provinces and autonomous regions. The discoveries have provided the basis on which to make decisions on the development of gold production in Gansu.

Historically known as a gold-producing region, Gansu is rich in gold deposits. In the past 2 years, geological teams from departments of geology and mineral resources, nonferrous metals, metallurgical industry, armed police, and nuclear industry have surveyed mountains and rivers throughout the province in search of gold. The provincial geology and mineral resources bureau has given priority to the mining of gold, silver, and other precious metals. For 2 years in a row, it has devoted more than 85 percent of its total investment in solid minerals

to gold prospecting. In 1987, geological-prospecting units in various parts of the province worked on 60 gold-prospecting projects, of which one-half were undertaken by the bureau.

The geological units' efforts have paid off. In the past 2 years, 49 gold deposits have been confirmed, including 18 gulch gold deposits and 31 deposits in rock formations, of which 13 are large and medium-sized deposits.

In geographical distribution, gold mines are located in all parts of Gansu except the Longdong economic zone, where no major discovery has been made yet. On the Gansu side of the "golden triangle," where the three provinces of Sichuan, Shaanxi, and Gansu meet, large reserves of high-grade alluvial gold are found in the Bailongjiang, Xihanshui, and Jialingjiang river valleys. The gold deposits in western Gansu are potentially large. Parts of Longnan and Gannan will become Gansu's major gold-producing areas. Groups and belts of large, medium-sized, and small gold mines are imbedded in the rock formations of the Beishan Mountain in Hexi. The Laojinchang and Jinwozi mines, in Anxi, and the Nanjinshan mine, in Subei, have developed into medium-sized gold mines. The eastern section of the Qilian Mountains is also a gold rich area.

In the past 2 years, new types of gold deposits have also been discovered in Gansu. The tiny gold veins in the clastic-carbonate rocks of the Silurian and Devonian systems in western Qinling Mountains, the acid marine facies volcanic rock type gold deposits in the carbonic system under the Beishan Mountain, and the altering gold deposits in granite and metamorphic migmatite of the Ordovician and Silurian systems have opened broad new vistas for gold prospecting.

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FOREIGN TRADE, INVESTMENT

Dalian Focuses on Improved Management of Foreign-Invested Enterprises

40060385b Beijing GUOJI SHANGBAO in Chinese
7 Jun 88 p 1

[Article by reporter Hou Yu 0186 3768: "Management at Dalian's Three Kinds of Partially or Wholly Foreign-owned Enterprises Improves Significantly"]

[Text] Dalian has given a great deal of attention to management training for Chinese personnel at its three kinds of partially or wholly foreign-owned enterprises, and has repeatedly improved management policy and professional quality. This has significantly changed the face of management at these foreign-invested enterprises. The vast majority of the city's 88 partially or wholly foreign-owned enterprises now operating have achieved a positive balance of foreign exchange. Three enterprises are experiencing losses, down from 14 last year.

Foreign-invested enterprises have developed quite rapidly in Dalian in recent years, and more than half of them are directly managed by the Chinese partner. Since the Chinese side has generally been lacking in knowledge and experience when it comes to modern enterprise management, a considerable portion of Dalian's foreign-invested enterprises heretofore have suffered from backward production management, low equipment utilization rates, and inferior economic return. How was this state of affairs changed so quickly? Dalian began by improving the managerial and professional quality of the Chinese participants, enacted in a planned manner laws and regulations affecting foreign entities, and conducted modern management training. Since last year, relevant sectors of the city have adopted a periodic centralized training approach, and have conducted a total of 10 professional training classes for Chinese managers and financial personnel. They invited foreign and domestic financial and enterprise management experts and scholars to lecture on Chinese laws and regulations which affect foreign participants, foreign-invested enterprise financial, foreign exchange, labor, and import/export business management, and modern enterprise management. In the course of study they centered on general issues of production management for partially and wholly foreign-owned enterprises, launched discussions on special topics, and conducted simulation exercises for the purpose of applying what was learned.

The Datong Laminated Copper Foil Corporation suffered losses of more than 300,000 yuan per year in the past because of faulty management, inferior product quality, and serious raw material waste. Last year the corporation's manager, Li Youlin [2621 2589 2651], underwent professional training and quickly found a method to effect a permanent cure for faulty enterprise management. He began with the joint venture's special characteristics and requirements, boldly restructured the production management mechanism, set up a system for perfecting various rules and regulations, and instituted "comprehensive control" management of the various production processes throughout the plant. As a result, product quality was raised expeditiously and unit costs were lowered significantly. Last year the PP-7 sheets manufactured by this plant were awarded the highest approval rating of the United States' "UL" standard, and became a product in great demand by foreign merchants. In 1 year the plant generated \$1.4 million in foreign exchange, and more than 4 million yuan in profits.

The China-Japan Dalian Joint Marine Products Corporation is a small aquatic products processing and exporting business. In its operations, the Chinese manager made the Japanese manager aware of his intentions, boldly made concessions, and won a high degree of trust from the foreign partner. The two principals actively increased the marketability of their export products based on Japanese market demand, and opened up marketing channels by all means possible. Last year the chilled aquatic products, live aquatic products, and

frozen products processed and exported by this corporation increased from 10 varieties to 43 varieties. Export-generated exchange totaled \$2.2 million, or 14 times that of the previous year, and the corporation recouped its total investment in 2 years.

12513

Guangdong Publishes Regulations for Personnel in Foreign-Funded Enterprises

40060385a Beijing GUOJI SHANGBAO in Chinese
7 Jun 88 p 1

[Article by reporter Yang Donghong 2799 2639 4767: "Guangdong Publishes Regulations Governing Chinese Personnel in Foreign-Funded Enterprises"]

[Text] The Guangdong Provincial People's Government recently published its "Regulations Governing Chinese Personnel in Foreign-Funded Enterprises in Guangdong Province," which explicitly addresses issues related to foreign-funded enterprise recruiting practices, dismissals, wages, insurance and welfare benefits, training and management, and arbitration.

The essential points of the regulations are:

1. The chairman of the board of directors and the Chinese board members of foreign-funded enterprises will be appointed by the Chinese partners in a joint venture or contractual joint venture; a system will be implemented uniformly to test, select, and hire under contract the best people to fill the positions of principal and assistant managers (plant managers and assistant plant managers), chief engineers, senior accountants, auditors, and other Chinese personnel; during the term of employment, support should be provided to the work units and respective departments of managers and expert technical talent, graduate students who are about to receive their degrees, or specialized high school and middle school students which a foreign-funded enterprise agrees to hire; at the conclusion or termination of a contract, the Chinese personnel should return to work at their former organizations, and those recruited from society at large may make their own occupational plans.

2. The wages of Chinese personnel in foreign-funded enterprises may not be lower than 120 percent of the average wages of similar enterprises in the host region; payment of insurance and welfare benefits during the period of employment will be made in accordance with the provisions applicable to the Chinese government in dealing with publically-owned enterprises; foreign-funded enterprises must pay into a housing subsidy fund in accordance with the provisions of the host region's people's government, with such fund to be used by the Chinese joint venture or contractual joint venture people to construct or purchase employee housing.

3. An enterprise may not terminate a contract for Chinese personnel during a period when they are undergoing prescribed medical treatment for illness or non-work-related injury, or those under treatment or recovering from work-related injury or illness, or those for whom, after treatment has been concluded, medical care providers certify a partial or full loss of the ability to work, or during pregnancy, childbirth or nursing, or those who make a mistake on the job which does not result in losses for the enterprise, a mistake which the person is truly capable of rectifying; and an enterprise must pay a living allowance based on years of service to those Chinese personnel recruited from society at large who are dismissed for cause or for whom the term of the contract has been fulfilled.

Applicable clauses of these regulations also govern Hong Kong, Macao, and Taiwan corporations, businesses and other economic organizations or individuals that invest in and operate enterprises in Guangdong Province in their handling of managers and expert technical personnel recruited locally.

12513

**Shenyang Enterprise To Issue
Foreign-Denominated Stocks**
*40060385d Beijing GUOJI SHANGBAO in Chinese
2 Jun 88 p 1*

[Article by Zhang Dong 1728 2639 and Ling Hao 0407 3185: "People's Bank of China Shenyang Branch Assistant Manager Sun Peipan Suggests Major Enterprise Issuing Foreign-Denominated Stocks a Good Way To Raise Foreign Capital"]

[Text] The assistant manager of the Shenyang branch of the People's Bank of China, Sun Peipan [1327 1014 3140], when asked recently by these reporters about the Jinbei Automobile Corporation issuing stock certificates, responded by saying that stocks are a new approach to attracting foreign capital. A major enterprise issuing foreign-denominated stocks is a good way to raise foreign capital.

Sun told these reporters that capital appraisal and credit appraisal activities have essentially been completed for the Jinbei Corporation. Immediately after experts verify the appraisal results, stocks can formally be issued to both domestic and foreign investors. He considers the purchasing of share certificates an internationally recognized type of direct investment. Foreigners will be permitted to buy stock in a Chinese enterprise, which will not expand the foreign debt. Foreign capital can help transform ageing Chinese enterprises, and the foreign investor and the Chinese enterprise will share alike in the investment risks. So what is there not to recommend it? He said that gradually opening up the stock market to foreigners will become an important test case for Shenyang's financial system reform.

When these reporters mentioned that many foreign enterprises are preparing to purchase Jinbei stock on a large scale, Sun said that the automobile manufacturing industry is a pillar industry in Shenyang's development efforts, and that Shenyang welcomes foreign capital investment in Jinbei stocks. There will soon be a provisional arrangement to answer foreigners' inquiries regarding investment details.

In talking about standardizing Jinbei stocks, Sun said the tentative plan in the past was to experiment with "one-step" standardizing of the stocks. Only common shares would be issued, and no preferred shares. Now it seems guaranteed dividend preferred shares will have to be issued. This is because the Jinbei Corporation is the first major enterprise to issue standard stocks to the public, so the financial savvy of the townspeople and their ability to assume risks has to be taken into account. At the same time, the enterprise's resilience and operational development requirements also have to be considered. Consequently, preferred shares of Jinbei stock will be issued in the first phase. These will guarantee a basic dividend, but the stockholders will have no management authority. Sun said there are many objectively restricting factors on the road to a standardized stock economy. If we do not take these factors into account, a simple standardizing will not be appropriate. Sun told these reporters that the Jinbei Automobile Corporation capital appraisal report, balance sheet, and credit appraisal results will soon be turned over to the news media for publication. Smiling at his interviewers, he intimated this is probably the first time the asset situation of a major enterprise will be publically disseminated throughout the country.

12513

**Sichuan Uses Contract Management System in
Foreign Trade Sector**
*40060385c Beijing GUOJI SHANGBAO in Chinese
2 Jun 88 p 1*

[Article by reporters Li Jian 2621 0256, He Chaolin 0149 2600 7792, and Yang Runlun 2799 3387 0243: "Sichuan Implements Contract Management Responsibility System in Foreign Trade Sector; Overcomes Basin Consciousness, Looks Toward International Market"]

[Text] Sichuan Province, the land of abundance, has resolved to overcome its long-standing isolation and narrow "basin consciousness," and open in all directions to the outside world. The provincial government has decided to grant foreign trade authority to the district and city level, and implement a multifaceted system of contract responsibility to advance direct participation in the international market by districts, cities, and some enterprises, which will expedite opening to the outside and step up the pace of reform.

It was only after China implemented its policy of opening to the outside world that Sichuan gradually began to manage its foreign trade exports. It generated \$345

million in foreign exchange in 1985. In 1987, export-generated foreign exchange amounted to \$730 million (of which Chongqing accounted for \$230 million). Total foreign exchange earnings from exports doubled in 2 years, and moved Sichuan from 17th place nationally to 13th.

Sichuan enjoys an abundance of natural resources and adequate labor power, so developing an export-oriented economy holds great promise. In order to develop foreign trade more quickly, the provincial government studied the reality of interregional development and devised a reform program. The essential elements of this program are:

Divide up the contracting among some districts and cities, and grant foreign trade management authority. Three-year fixed comprehensive contracting was implemented this year in accordance with the principle of voluntary action, instituting standards for export-generated exchange, turning over foreign exchange to higher authorities, and profits and losses. The contracting was implemented in 10 cities and districts including Chengdu, Mianyang, Nanchong, Daxian, Zigong, Luzhou, Leshan, and Neijiang (which provide approximately 80 percent of the province's supply of export goods). None of the foreign exchange which the various districts and cities generate in excess of the state plan will be retained by the province; 20 percent of the excess will be turned over to the state, and all of the remaining 80 percent will be retained by the districts and cities. The state's policy to encourage and reward exporting to generate exchange has been handed in its entirety to the districts and cities for implementation.

With respect to the other districts and cities contracting to supply export goods and turning over profits to higher authorities, the increase in foreign exchange as a result of supplying goods in excess of the state plan will be shared. Each district which does not fulfill its contracting plan must use its own foreign exchange holdings or make purchases itself to adjust its foreign exchange and make up shortages.

The provincial-level foreign trade company will implement contract management. To satisfy the three contracting standards for the province as a whole, the provincial foreign trade company will let specialized contracts for the portion not divided among the contracting cities and districts. The provincial foreign trade company must divide among the various industries the responsibility for generating exchange throughout the province, and make assessments based on this. The foreign exchange generated from exports in excess of the state plan, except for the portions turned over to the state and divided among the producing enterprises, will be managed centrally by the provincial company, which will be responsible for profits and losses. None of the earnings will be retained by the province.

In order to push the enterprises to be competitive in the international market, all the large and medium-size production enterprises which provide export products in excess of \$1 million and which essentially have the wherewithal to manage exports on their own will be allowed, upon approval, to directly interact with the outside world, and similarly to implement the three standards for comprehensive contracting.

As for giving special consideration to the Aba Zang, Liangshan Yi, and Garze Zang minority nationality autonomous prefectures and seven autonomous counties, all of the foreign exchange provided by the state to the province will go to these prefectures and counties, and none will be retained by the province. All of the earnings of the foreign trade enterprises will be retained by these prefectures and counties (losses will not be subsidized), and need not be turned in for 3 years.

At the same time as implementing a multifaceted contract responsibility system, Sichuan also has decided it must devote major efforts to coordinating industry and trade, promoting the agent system for exporting, and diversifying. The foreign trade company may act in conjunction with the production enterprises to form joint ventures, or organize share companies or collective enterprises. It also may transfer to the production enterprises the task of exporting, and do business with the outside through these enterprises. This will make it easier for a greater number of production enterprises to come directly into contact with the international market. In addition, it also must develop export-oriented joint ventures and contractual joint ventures, and actively carry out the "three forms of import processing, and compensation trade" mission. The province is in the process of reviewing a group of joint and contractual joint ventures designed generate foreign exchange through exports, and plans to make an announcement to the outside world at a Beijing news conference in June.

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LABOR

National Family Planning Survey Approved
40060399 Shanghai WEN HUI BAO in Chinese
21 Jun 88 p 1

[Text] The State Council has approved the start of a national family planning sample survey throughout China on 1 July. In order to bring about this survey, the State Family Planning Commission yesterday convened a national teleconference on the survey. State Council Deputy Secretary-General Liu Zhongde [0491 1813 1795] and State Family Planning Commission Minister in Charge Peng Peiyun [1756 3805 7189], who attended the conference, stated that it was imperative that departments at each level of government support this survey, which was an important task that would affect whether the goals of China's economic development strategy could be attained.

Peng Peiyun stated that, since 1986, births had increased dramatically in China, with the birth rate and the natural growth rate showing a corresponding tendency to rise again. An important cause of the increase in births is that the segment of the population born between 1962 and the early 1970's has reached the age of marriage and childbirth, and the increase in the number of women of childbearing age has unavoidably brought an increase in the number of births; this birth peak will continue until the mid- or late 1990's. The large number of births greatly increases the difficulty of fulfilling the Seventh Five-year population plan and achieving the population growth targets up to the end of this century. Unless population growth is adequately controlled, it will affect the attainment of the goals of China's economic development strategy.

The main condition for successful implementation of family planning is gaining an accurate understanding of the actual situation and related data. Although China conducted a census and fertility rate survey of one-one-thousandth of the population in 1982, the situation with regard to population growth has changed with the passage of time, and there are many survey items closely related to family planning which have not been surveyed before; moreover, data on some of the statistical reporting forms contains a certain amount of exaggeration, and does not accurately reflect objective reality. We must therefore organize all of China's provinces, autonomous regions, and municipalities directly under the central government and conduct a family planning survey prior to the arrival of the third birth peak.

This survey has been approved by the State Council, and, with the State Family Planning Commission as the chief organization, it will include as participants the State Statistical Bureau, State Planning Commission, Ministry of Finance, and Ministry of Public Security. The survey will utilize 13,539 sampling points, and cover 2.1 million people. This is the first time such a large-scale family planning survey has been conducted in China.

Therefore, State Council Deputy Secretary-General Liu Zhongde has pointed out the great importance which the central authorities attach to this survey, and has expressed the hope that all the various provinces and municipalities will give serious attention to its successful implementation.

13387

TRANSPORTATION

Civil Aircraft Market Potential Viewed
40060377 Beijing GUOJI HANGKONG
[INTERNATIONAL AVIATION] in Chinese
No 6, 5 Jun 88 p 6

[Article by Xu Bingxuan 1776 3521 3551: "The Potential Chinese Civil Aviation Market"]

[Text] The establishment of China's aviation industry began after the creation of new China. In the last 30 some years, a fairly large scale, complete aviation

industrial system has been established. However, for historical reasons, the primary mission of our nation's aviation industry has long been the production of airplanes for military use. Plans for development of aircraft for civil use were not launched until the late 70's and early 80's, and the foundation was relatively weak. The development of planes for civil use at present is only in the initial stage. A developmental foundation will be set up by the year 2000, and we will enter a new period of great development in the twenty-first century. Our predictions for the vast vista of China's civil aviation industry are formed upon the enormous potential domestic market.

In the area of civil aviation transport, passenger and cargo demand will continue to increase rapidly. Our nation's development in civil aviation transport has been fairly slow since the creation of new China up to the early 80's. 1984 and 1985 were two years of rapid development with overall turnover increasing 40.1 percent and 37.8 percent respectively beyond that of the previous years. Even in this manner, the overall turnover in 1985 only reached 1.29 billion ton kilometers, which was only one-seventh of Japan's turnover (although in the 50's, the overall aviation transport for the two nations was about the same), and was lower than that of such small nations as Singapore and South Korea and such developing nations as Brazil and India. This far from met the needs in the rapid development of our nation's economy and should be sped up.

Moreover, the low starting point for our nation's aviation transport can result in rapid development of aviation transport. Our nation comprised one-fifth of the world population, but in 1985 our passenger turnover was less than one percent of the world total. Calculated on the basis of 5 billion passengers, those taking scheduled flights worldwide in 1985 each flew in excess of 250 kilometers, but our nation's passengers flew less than 12 kilometers each. It is obvious that the base is very low. As seen from the progress of aviation transport development in many nations, the speed of development in this initial phase is very rapid, with annual rates of increase being in double digits. According to International Civil Aviation Organization statistics on worldwide regular business (excluding domestic business in the Soviet Union, but including domestic business in the non-membership countries of the International Civil Aviation Organization), the average annual rate of increase for the years 1950-1960 was 14.5 percent; for 1960-1970, 13.5 percent; and for 1970-1980, 9.3 percent. Entering the decade of the 80's, our nation's total turnover in aviation transport is progressively increasing at a speed of 20-40 percent per year. It is anticipated that the annual rate of increase for the years 1985-2000 will not be less than 13 percent. By the year 2000, transport and passenger turnover will increase 4.5 times over that of 1985, reaching 7-8 billion ton kilometers and 65.4-73.4 billion passenger kilometers respectively. Considering the feverish upsurge of self-managed airline companies in provinces, cities and autonomous regions in recent years, it is anticipated that new additions of large, medium and small model airplanes may number around 500 before the year 2000.

In the area of farming and forestry aircraft, there are 30,000 aircraft currently being employed in farming and forestry work worldwide. Our nation comprises less than one percent of this total. There are approximately 1.5 billion mu of arable land in our nation, but only 2.6 percent are treated using farming aircraft. If we were to increase the area treated using farming aircraft to five percent, then we would need 500 more airplanes. There are innumerable desolate mountains and vast grasslands in our nation, but we merely rely on manual labor and ground-based machinery to plant trees and seed grass on these remote mountain ranges and boundless grasslands. The methods are either highly inefficient or else impossible to apply at all. So, it is necessary to rely on aircraft to fulfill these tasks. At present, the aircraft employed in aerial dissemination of tree and grass seed number well below one hundred. Grass planted this way amounts to only 2 million mu annually, reaching less than 0.05 percent of the grassland area available for use. Also, aerial afforestation has been extremely limited. The development of China's forests hinges upon afforestation. Afforestation should be done aerially for it to exercise its important role. At present, the percentage of forest cover in our nation is only 12.6 percent. If we can increase this to 20 percent by the year 2000, the net increase in forest area will be more than one billion mu. Reliance on manual labor alone obviously will not accomplish this. It is estimated that we will need to employ as many as 100 aircraft each year. Only by using airplanes can we obtain good results in preventing disease and pestilence in our forests. In recent years, disease and pestilence in our forests have been increasingly severe. According to reports, the yearly losses throughout the country due to disease and pestilence in our forests exceed the losses from the 1987 forest fire in Daxinganling. Why is it that disease and pestilence in the forests cannot be effectively controlled? Backward means of prevention and inability to widely employ aircraft are primary reasons. Also, we need the assistance of aircraft in preventing forest fires and surveying natural resources. Forecasting based on the actual demands of agriculture, forestry and animal husbandry, 700-800 aircraft are needed to meet the fundamental demands.

In the area of industrial aviation, although aircraft are currently being used for prospecting and aerial photography, yet, there remain large amounts of work to be accomplished. For example, there is a huge amount of work in topographic mapping that requires aerial photography methods to be carried out. In the past, the topographic maps we have drawn have been on large scales, primarily 1:50,000, with scales for desert and plateau maps being 1:100,000. Now we need to launch a second generation of topographic maps drawn on small scales. Also, land registry survey work for town, county and above, as well as line selection for railroads and mine area planning all depend on aerial photography for their fulfillment. In the past, aircraft have played an excellent role in prospecting, and there will be fairly large development before the year 2000. Ours is a big country

abounding in natural wealth and the reserves and varieties of minerals await further verification. We must raise work precision, and this requires that we use even more modern methods of aerial exploration and perform even greater amounts of survey work. We've also started using aircraft for petroleum exploration. In recent years, aircraft have been used to explore oil and gas on land and at sea with remarkable results. This is testimony to our nation's abundance of petroleum resources. However, we need more precise data on these resources so we may know more about them.

We can see from the brief account above that China has a potentially enormous market for civil aircraft which awaits the development of China's civil aviation industry. The state and departments concerned have formulated and adopted a series of effective policies and measures to bring about accelerated development in the civil aviation industry.

First of all, there will be determined implementation of the policy combining the military with the civilian, and the civilian will take priority. Party Central and the State Council, on the basis of an in-depth analysis and new assessment of the developing international situation, have resolved fundamentally to proceed with a shift in the service direction of the national defense industry, moving from the "combining of the military with the civilian, and the military takes priority" which has ensured that the requirements for a defensive war would be met in the past, to "combining of the military with the civilian, and the civilian takes priority" so as to meet the requirements of modernization construction. This will require adjustments in industry and product structures so as to shift the strong production capability of the aviation industry away from war production and toward serving construction of the national economy, and shift production from military aircraft as the priority to civil aircraft and civilian products. As for our aviation industry which has long been engaged in war production, this strategic shift is not something that can be completely adapted to ideologically or operationally in one fell swoop, but rather, over the course of implementation in recent years, the correctness and far-reaching significance of this policy have come to be recognized and accepted by more and more people.

Second, energetically develop international cooperation. The development of airplanes through international cooperation has become a world trend which has been successively adopted by airplane manufacturers in many countries. Cooperation in aircraft development and production is advantageous to both parties because of joint investment, joint sales and joint braving of risks. Since the beginning of construction of China's aviation industry, importance has been attached to international cooperation, the first instance being with the Soviet Union. In the 60's, there was cooperation with the British Rolls-Royce Company in production of the Sibai generator. In the 1970's there was cooperation carried out with France in production of the Dolphin Helicopter. Entering the

80's, international cooperation involving China's aviation industry has been even more open. The industry has undertaken production of spare parts and components for Boeing Company aircraft, it has combined and installed gauges on McDonnell Douglas MD-82 passenger planes, it has participated with the MBB Company of the Federal Republic of Germany in developing and designing the MPC-75 airplane, and it has produced spare and component parts for the American companies Pratt & Whitney and General Electric. China's aviation industry must still further open up and widen its international cooperation. At present, it is broadening exchange and closely cooperating in carrying out inquiries about main line, feeder line and universal aircraft as well as aviation motors and gas turbine engines for ground use. The scope of matters involved is very wide and the prospects are bright.

The ability of China's aviation industry to effectively take part in international cooperation depends on its possession of many superior and favorable conditions. China's aviation industry is rich in production capability, with 70,000 scientific researchers, engineers and technicians as well as a large group of low-salaried, skilled workers. Viewed from domestic requirements, China has an enormous civil aviation market to further develop along with the economy. The capacity of this market will become larger and larger. But, if we are to enter China's civil aviation industry under the socialist system, it must be done with partners in cooperation who provide favorable terms to our nation. There are many forms of cooperation: cooperation in developing new aircraft; re-equipment of old aircraft using modern technology and equipment; taking over production to assemble aircraft and spare and component parts for the cooperating partner; also we can use the methods of providing funds and technology to participate in cooperation. The production capability of China's aviation industry is large. At present, aside from producing aircraft, the industry provides technological equipment and products to more than 10 industries such as the textile, communication, energy, petroleum, building material and chemical industries, and light industry, business, and the food products industries; it produces many kinds of household appliances for residents and families and in this area its output value greatly increases year after year. The industry finds itself starting to take off into great development. This area also requires participation in international cooperation.

Thirdly, deepen reforms. Reforms in the China aviation industrial system are becoming progressively more thorough. Above all, the state has shifted the management system of the aviation industry from the military to a state administered system led by the State Council. At present, it is taking away simple administrative powers from departmental bodies and shifting management functions to the enterprises, causing them to have greater powers of self-determination and greater vitality. Also, it is planning to spend 2-3 years to organize certain large enterprise groups dealing in aviation and non-aviation products. These groups will have legal entity status, will be able to directly sign contracts with domestic or foreign

customers and partners in cooperation, and will have all-around responsibility for the start-up, development, production, sales and service of the pertinent products.

It can be foretold that China's aviation industry brims with vitality. It will continue to advance and develop, and will progressively move out into the world.

13072

Application of Yun-11 Aircraft

40060379 Beijing GUOJI HANGKONG
[INTERNATIONAL AVIATION] in Chinese
No 6, 5 Jun 88 p 16

[Article by Liu Zhantong 0491 2069 4547 and Wang Maotian 3769 5399 3944: "Yun-11's Outstanding Performance in Boosting Agricultural Production"]

[Text] After several years of work, all the airborne equipment on the Yun-11 aircraft, developed by the Harbin Aircraft Manufacturing Co, are now made in China. Production of the aircraft began in small batches following state appraisal in 1977. Since then, dozens have been delivered to users.

In the past few years, Yun-11 aircraft have performed many services, including aerial rice and grass seeding, farm and forest insect spraying, wheat, soybean, and cotton field fertilizer application, aerial prospecting, aerial photography, etc., over Xinjiang, Inner Mongolia, Guangdong, Anhui, Jiangsu, Hebei, Shandong, Liaoning, Jinlin, and Heilongjiang, provinces and autonomous regions. Users speak highly of the aircraft's performance. In addition, because of the aircraft's good technological properties and low price, it has also caught the attention of users abroad. Egypt, Thailand, Hong Kong, and other countries and areas have cabled and wrote for information on the aircraft, or have sent people to the plant for observation.

In the past few years, Yun-11's in service have flown a total of 15,828 hours and 49,249 sorties working over 13,735,000 mu of land and covering 600,000 km on geological survey assignments. Tangible results from the use of the Yun-11's in various places—better economic returns, greater mechanization, and lower labor-intensity—have made the aircraft very popular.

Established in early 1983, the Agricultural Air Unit of the PLA Xinjiang Production and Construction Corps has 10 Yun-11 aircraft. By aerial spraying of potassium dihydrogen phosphate, the regimental farms of the 7th Agricultural Division increased production by 3.08 yuan per mu, and even more by spraying twice. The 8th Agricultural Division sprayed insecticides by airplane on 80,000 mu of wheat at its Shihezi farm and increased production by 235,000 yuan. According to statistics of the 7th and 8th divisions, in the first 3 years, production increased at an average annual rate of 8-13 percent, and total earnings increased by 6 million yuan. Using airplanes to sow rice, apply fertilizer, and spray insecticide and herbicide, the 2d Agricultural Division raised its

degree of mechanization to 90 percent, greatly reduced labor-intensity, and achieved an average per-mu yield of 860 jin and a highest per-mu yield of 1,420 jin. In 1985, Yun-11's successfully carried out an experimental aerial seeding of forage grass in Ili, Bole, and Changji autonomous prefectures. A total of 255,000 mu of grassland have since been seeded by airplanes. The even broadcasting of grass seeds has won approval of the grassland stations.

During farm slack seasons, the Agricultural Air Unit of the Xinjiang Production and Construction Corps provides aerial photographic services. Videotaping, urban fly eradication, and other services have further expanded the unit's operations. The Corps plans to buy three more Yun-11's to meet the needs of the intensifying reforms.

The flight team of the Fei Long Specialized Aviation Co was established in 1978 with 17 Yun-11 aircraft. The company later bought five Yun-12 planes. The company is engaged mainly in forest operations, geological surveys, and oil field production and transport services with a fairly good performance record. In 1987, the company sent six Yun-11 aircraft to Heilongjiang Province to carry out aerial spraying on soybean and wheat at the Gongqing, Hongqi, and Raohe state farms in eastern Heilongjiang and the Shanhe, Nenjiang, and Nenbei state farms in western Heilongjiang. The planes flew a total of 559 hours and 2,336 sorties to spray 725,000 mu of land and contributed to the reclamation areas' higher and better soybean crops. According to the Shanhe farm, in the past 3 years, Yun-11 planes have flown a total of 360 hours to carry out foliage fertilization, disease and pest control, and weeding operations on 540,000 mu of wheat and soybeans. Wheat and soybean output has increased 7-13 percent on the average, and after deducting the aerial spraying costs, the farm has netted an additional income of 3 million yuan.

The Changzhou Agricultural Air Service Team is equipped with three Yun-11 aircraft. The team's major services include farm and forest fertilizer application, insect control, and large scale aerial photography. The team's remodeled Yun-11's for aerial photographic operations produce good pictures quickly and at low cost, much to the satisfaction of customers. The aerial photos are used in surveys and plans for small- and medium-sized local construction projects, land surveys, and so forth.

In the past few years, Yun-11 aircraft have performed quite well in various types of operations and won favorable comments from users. The following comments about the aircraft are rather unanimous.

1. It has great agility and a small turning radius, which can reduce cost for customers. It has been determined that it can cut the time for each sortie by 1.5 minutes from what is required by other planes of the same class and reduce the per-mu operational cost by 8.8 percent.

2. It performs well at low altitudes, capable of flying at an altitude of 3-7 meters and spraying at a rate of 5 kg per mu (meeting requirement of arid areas) with good insect-killing results. According to a 1984 test conducted by the Shihezi main farm of the Xinjiang Production and Construction Corps, the effectiveness of aerial insect spraying was 100 percent on aphids and 95 percent on wheat thrips. In 1985, the 149th regimental farm planned to spray 40,000 mu of cotton for insect control. Later, learning about the effectiveness of spraying by Yun-11's, the regimental farm hired Yun-11 aircraft to do the job, and twice as many mu of cotton fields were sprayed.

3. It has good take-off and landing properties. Requiring a short running distance and no fancy airport, it can take off and land on simple 500x30 meter dirt runways.

4. Its aerial sowing equipment can broadcast seeds with great evenness and low peaks. In rice seeding, it can save 3-4 jin of seeds per mu, as compared with other types of airplanes. According to Corps statistics, the per-mu flying cost of Yun-11's is 13.8-percent lower than other types of aircraft.

5. It has an engine which meets economic and technological performance standards, with a fuel consumption rate of less than 100 kg per hour in flight. It uses unleaded gas and causes little environmental pollution. The engine has registered a total of 6 million hours of safe flying and has won a state silver medal. In the future, it is expected to use gas with an octane number of 80, now only for motor vehicles. Ground experiments for the plan have already been completed, and preparations are being made for flight tests. It is hoped that the plan can be realized in 1 or 2 years. Then the planes' fuel needs can be supplied by commercial outlets, which will make refueling easier and expand the use of Yun-11's.

6. It has strong resistance to winds. With 16-meter headwinds and 8-to-10-meter 90-degree crosswinds, it still can fly normally.

7. It has simple controls and is easy to pilot. One pilot of the Fei Long Specialized Aviation Co took only 30 minutes of in-flight training and began flying a Yun-11 on his own.

The Harbin Aircraft Manufacturing Co has also tried to provide good, comprehensive services to customers. In the past few years, the company has trained more than 200 flight and ground personnel in more than 10 groups for domestic and foreign customers. It has sent groups of specialists to the Air Force, Navy, CAAC, local specialized aviation companies, and foreign countries to provide on-the-spot technical services. It has provided technical assistance to the Xinjiang Production and Construction Corps in the organization of its Agricultural Air Service Team, and helped Dali Autonomous Prefecture, Yunnan, in selecting the site for a civil airport, conducting feasibility studies, and so forth.

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State Council Circular Regarding Treasury Bonds 1988

40050287b Beijing ZHONGHUA RENMIN
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STATE COUNCIL BULLETIN] in Chinese
No 2, 10 Feb 88 p 35

[State Council Circular on the Promulgation of the
"PRC Regulations on Treasury Bonds 1988 (22 January
1988)"]

[Text] The "Regulations on the 1988 Treasury Bonds of
the PRC" are hereby promulgated for implementation.

The 1988 treasury bonds are issued to the value of 9
billion yuan, of which 3.5 billion are to be bought by
units and 5.5 billion by individuals. The Ministry of
Finance will advise the amounts to be taken up by the
various provinces, autonomous regions, centrally administered
municipalities, and the various departments of
the central authorities. People's governments at all levels
shall arrange for widest propaganda, and all relevant
departments shall closely cooperate, in order to make the
present issue of treasury bonds a success by joint effort.

9808

PRC Regulations Governing 1988 Treasury Bonds

40050287c Beijing ZHONGHUA RENMIN
GONGHEGUO GUOWUYUAN GONGBAO [PRC
STATE COUNCIL BULLETIN] in Chinese
No 2, 10 Feb 88 p 35-36

[PRC Regulations Governing 1988 Treasury Bonds]

[Text] **Article 1.** In order to duly pool financial resources
from all the various quarters for the benefit of the
socialist modernization projects, it has been decided to
issue 1988 treasury bonds.

Article 2. Targets for taking up treasury bonds are state-run enterprises, collective enterprises, departments in charge of enterprises, and local governments; also organs, organizations, armed forces, industrial units, individuals in urban and rural areas, individual industrial and commercial households, and private enterprises.

Article 3. On issuing treasury bonds, rational measures shall be taken in their allocation. Units shall be made to take up bonds at a certain ratio commensurate with their capital fund needs beyond the budget, or, in the case of collective enterprises, according to net income retained after tax. Individuals in urban or rural areas shall generally take up bonds at a certain ratio to their income. Units and individuals shall fulfill their bond-buying obligations, as allocated by the state, within the prescribed time.

Article 4. The amount of treasury bonds to be issued shall be determined by the State Council; they shall be issued as from 1 January this year. Payment shall be made up to 30 June in the case of units, and up to 30 September in the case of individuals.

Article 5. Interest on treasury bonds shall be 6 percent per year for bonds bought by units and 10 percent for bonds bought by individuals.

Interest on treasury bonds shall be computed as from 1 July of this year; no discount will be given for earlier payment.

Interest will be paid once at the same time that capital will be redeemed; interest will not be compounded.

Article 6. The RMB will be the unit of calculation for treasury bonds; they will be issued in four denominations: 5, 10, 50, and 100 yuan face value.

Units and individuals buying bonds for 1,000 yuan or more shall be issued receipts in the buyer's name; their loss may be reported to obtain replacement. Individuals buying bonds for 1,000 yuan or more shall be issued treasury bond certificates.

Article 7. The treasury bonds shall be redeemed after 3 years, and capital with interest shall be repaid in the fourth year after issue.

Article 8. The People's Bank of China shall arrange for the issue and repayment of capital with interest to be handled by the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the People's Construction Bank of China, and all their subordinated agencies.

Article 9. Capital raised through the issue of treasury bonds shall be centrally allocated for use in an overall well-balanced way by the State Council according to the needs of national development.

Article 10. Treasury bonds are transferable, but must not be circulated as currency. Measures governing the transfer of treasury bonds will be separately determined by the State Council.

Article 11. Treasury bonds may serve as security for loans.

Article 12. Forging of treasury bonds or undermining confidence in the treasury bonds will be punished according to law.

Article 13. The present regulations are subject to the interpretation of the Ministry of Finance.

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Detailed Rules Governing Technological Imports
40050287c Beijing ZHONGHUA RENMIN
GONGHEGUO GUOWUYUAN GONGBAO [PRC
STATE COUNCIL BULLETIN] in Chinese
No 2, 10 Feb 88 pp 37-41

[Detailed Rules on the Implementation of the PRC Regulations on the Control of Contracts for Technological Import (Approved by the State Council on 30 December 1987; promulgated by the Ministry of Foreign Economic Relations and Trade on 20 January 1988)]

[Text] **Article 1.** Formulation of the present detailed rules is based on Article 12 of the "PRC Regulations Governing Contracts for the Importation of Technology" (hereafter "the Regulations").

Article 2. The following technology import contracts between recipients and suppliers must complete procedure for examination and approval by the relevant authority, regardless of the supplier's native country or territory, regardless of the source of funds, and regardless of the recipient's method of payment:

1. Contracts for the transfer or licensing of industrial property. The term "contracts for the transfer or licensing of industrial property" refers to contracts for the transfer or licensing of patents or inventions, of utility models, or of designs, as also to the transfer or licensing of trademarks (except contracts for the mere transfer of trademark rights);

2. Contracts for licensing proprietary techniques. The term "contracts for licensing proprietary techniques" refers to contracts for the supply or passing on of technological know-how which has not been made public, or which is not protected by the Law on Industrial Property, for the manufacture of certain products, or the use of certain industrial techniques, or the design of products, industrial processes, formulae, or technological know-how in quality control or management;

3. Technological service contracts. The term "technological service contracts" refers to contracts in which the supplier of certain techniques renders services or acts as consultant to the recipient to achieve a certain objective. This includes contracts by which the recipient entrusts the supplier with feasibility research or planning of engineering projects, or collaborates with the supplier in such projects, also contracts for the employment of foreign geological prospecting teams or engineering teams to render technological services, contracts by which the supplier is commissioned to render services or consultations in connection with the technological transformation of enterprises, improvement of production techniques or designs, or quality control and management (excepting contracts for the employment of foreigners as employees in Chinese enterprises).

4. Contracts for cooperative production or design which entail the transfer or licensing of industrial property, or the licensing of any kind of proprietary technology or rendering of technological services;

5. Contracts for the importation of complete sets of equipment, production lines, or key production elements which entail the transfer or licensing of industrial property, or the licensing of any kind of proprietary technology or rendering of technological services;

6. Other technology import contracts which in the opinion of the examination and approval authority must complete the procedure for examination and approval.

Article 3. Companies, enterprises, organizations, and individuals who are not entitled to import technologies, must entrust their imports to a company or enterprise which has the right to import technologies, which will then sign the contract for technology importation with the foreign party; a power of attorney shall be drawn up for this purpose.

Article 4. Contracts for technology imports signed by Chinese-foreign joint ventures, Chinese-foreign cooperative ventures, and solely foreign-owned enterprises established in the territory of the PRC (hereafter "enterprises with foreign investment"), which entail obtaining technologies from a supplier, are subject to the examination and approval procedure of the present Detailed Rules.

Cases in which the investment of the foreign investor in an enterprise with foreign investment consists of industrial property or proprietary techniques shall be handled according to the relevant Chinese laws and regulations on enterprises with foreign investment.

Article 5. The authority in charge of examination and approval of technology import contracts is the Ministry of Foreign Economic Relations and Trade (hereafter "MOFERT") and, by authorization of MOFERT, the departments, commissions, and bureaus in charge of foreign economic relations and trade and other organs so

charged in the provinces, autonomous regions, centrally administered municipalities, opened-up cities and special economic zones along the coast, and province-administered cities with individual planning (hereafter the "examination and approval authorities").

Article 6. Technology import contracts shall be examined and approved at different levels according to the following provisions:

1. Technology import contracts concerning items approved in feasibility study reports of ministries and commissions of the State Council and of agencies directly under the State Council shall be examined and approved by MOFERT;

2. Technology import contracts concerning items approved in feasibility study reports of provinces, autonomous regions, centrally administered municipalities, open cities and special economic zones along the coast, people's governments in province-administered cities with individual planning, or their authorized agencies, shall be examined and approved by the agency at the same administrative level which is authorized to examine and grant approval. In case a transregional company as agent signed the said technology import contract with the foreign party, the contract may be examined and approved by the authorized organ at the place where the contract was signed, after approval by the organ at the place where the party who appointed the agent resides. After approval of the contract, the authorized organ at the place where the contract was signed shall send a copy of the certificate of approval to the authorized organ at the place where the party who appointed the agent resides for that organ's files. However, if the transregional company which acts as agent is located in Beijing (not including companies under the Beijing Municipality), the technology import contract signed with the foreign party shall be examined and approved by MOFERT;

3. Technology import contracts signed by enterprises with foreign investment which have been approved by the various ministries and commissions of the State Council, or their subordinated organizations, by which technologies are acquired from a supplier, shall be examined and approved by MOFERT; others may be examined and approved by the various other authorized organs.

Article 7. Technology import contracts must clearly specify the following details:

1. Name of the contract;

2. Content, scope, and requirements of the technology according to the import specification;

3. Standard, time limit, application of the imported technology, and responsibility for risks involved, according to the standards attested to in the evaluation tests;

4. Obligation to keep the imported technology secret; ownership of and sharing in improvements of the technology;
5. Cost or remuneration, total and for each item separately, and method of payment;
6. Method of computing indemnity for contract violations;
7. Methods of resolving disputes;
8. Interpretations of special terms and technical terms.

Attachments and other data relevant to fulfillment of the contract may be made integral part of the technology import contract by agreement between the contracting parties.

Article 8. Technology import contracts which involve the transfer or licensing of items for which patent rights or trademark rights have been obtained in China must clearly state the number of the relevant patent or patent application, or trademark registration number with a picture of the trademark attached. Those that involve the transfer of a patent must be reported to the Patent Bureau for their record, according to the provisions of the PRC Patent Law. Those involving the transfer of a trademark, must be reported to the Trademark Bureau for their record, according to the provisions of the PRC Trademark Law.

Article 9. The supplier must guarantee the completeness, accuracy, and effectiveness of the technology which he provides, as well as of all documents and data, and, furthermore, that the technology can achieve the technical objective stipulated in the contract. Relevant technical documents must be supplied as and when needed by the recipient according to his planned schedule for the project in question.

Article 10. If recipient requires supplier to provide raw and other materials, parts, or equipment needed for the imported technology, prices for these items shall not exceed prices for similar items in the international market.

Article 11. Supplier must guarantee that the legal ownership of the technology he is supplying, or guarantee that he is entitled to transfer or license the technology in question. If a third party accuses the recipient of infringement of rights during the manufacture or sale of products when using the transferred or licensed technology, the supplier shall be responsible to respond to the complaint. If the third party is successful in establishing a case of infringement of rights, the supplier shall be responsible to indemnify the recipient for any economic losses suffered.

Article 12. During the duration of the contract, ownership of improvements of the technology, including the right to apply for patent, belongs to the party that has effected the improvement. If the recipient provides the supplier with an improvement of technology, it shall be on the same terms as when the supplier provides recipient with an improvement of technology.

Article 13. With regard to proprietary techniques and related technical data provided or passed on by the supplier, the recipient is obliged to preserve secrecy according to scope and duration stipulated in the contract. The duration of such secrecy must generally not exceed the duration of the contract. If for special reasons this obligation is to exceed the duration of the contract, it should be explicitly stated in the contract, and the reasons for such extensions shall be clearly stated when applying for approval.

If the technology becomes public knowledge during the time that the recipient is obliged to preserve secrecy, for reasons not connected with the recipient, the recipient shall no longer be obliged to maintain secrecy. If the contract stipulates that the supplier shall further develop or improve the technology during the duration of the contract, the recipient may continue to be obliged to maintain secrecy after expiration of the contract. The time limit for maintaining secrecy shall be computed from the day the supplier provides the technology, but the time limit must not exceed the time limit originally stipulated in the contract.

Article 14. Without approval from the examination and approval authority, the contract must not contain provisions restricting the recipient's exports of products manufactured with the use of imported technology, except in the following cases:

1. In the case of a country or territory for which a supplier has signed an exclusive permit agreement;
2. In the case of a country or territory for which a supplier has signed an exclusive agency agreement.

Article 15. Without approval from the examination and approval authority, the contract must not stipulate that the recipient may not use the technology after expiration of the contract. In case the contract expires while the patent involved in the imported technology has not yet expired, the case shall be handled according to the relevant provisions of the Patent Law of the PRC.

Article 16. The supplier shall pay tax according to the provisions of the Tax Law of the PRC.

Article 17. When signing a contract with a foreign party, the recipient of a technology import contract, or the company or enterprise which acts as his agent in signing the contract with the foreign party, must report this fact

within 30 days after signing the contract to the examination and approval authority for their record, according to the provisions of Article 6 of these Detailed Rules, submitting the following documents;

1. An application for approval of the contract. The application shall contain the name of the contract, country and factory or commercial enterprise of the supplier, content and scope of the technology as stated on the import specification, and the name of the administrative agency which approved the feasibility study report of the item in question as well as the reference number of that approval;
2. A copy of the contract (if in a foreign language, a Chinese translation shall be attached);
3. Copies of documents verifying the legal status of all signatories to the contract;
4. Approved feasibility study report and availability of funds;

To assist in the examination and approval of contracts, the recipient or the company or enterprise which acts as his agent in signing the contract with the foreign party, may already before the negotiations or in the course of the negotiations, present the main content of the contract or certain of its provisions to the examination and approval authority, requesting their opinion or a preliminary examination.

Article 18. If the technology import contract or any of the accompanying documents, submitted according to the provisions of Article 17 of these Detailed Rules, show one of the following defects, the examination and approval authority shall instruct the parties to amend the contract within a specified period of time. If no amendment is forthcoming, approval shall be refused:

1. If the contract violates current Chinese laws or regulations, or is harmful to the public interests of society;
2. If the contract infringes on China's sovereignty;
3. If the content of the contract does not conform with approved items of the feasibility study report;
4. If basic provisions or content of the contract are defective;
5. If the contract does not contain clear and appropriate provisions for responsibilities in the event of disputes arising about the ownership of the technology which is to be transferred or licensed, and also in the event of other disputes about the fulfillment of the contract, as well as provisions on methods of resolving such disputes.

6. If the contract does not contain appropriate provisions guaranteeing that the transferred or licensed technology will indeed attain the required technological level and economic benefits, including the guarantee of the quality of products manufactured with the use of the said technology;

7. If prices or payment terms for the imported technology are unreasonable;

8. If contract provisions regarding rights, responsibilities, and obligations of the parties involved are not sufficiently clear, equal, and reasonable.

9. If the contract provisions promise tax benefits which have not had the approval of the State Tax Administration.

Article 19. The examination and approval authority shall decide within 60 days from receipt of the application on its approval or denial. For contracts which are to be amended in accordance with the provisions of Article 18, the examination and approval period shall be counted from the day of receiving the amended contract text or amendment.

If the examination and approval authority does not respond within the specified time, the contract shall be considered approved.

Article 20. A contract shall be effective from the day of its approval. The examination and approval authorities shall issue a "Certificate of Approval of Technology Import Contract" on a form to be uniformly prepared and numbered by MOFERT.

Article 21. When completing approval procedure according to the present Detailed Rules for technology import contracts which exceed the limit of 10 years, as prescribed in Article 8 of the "Regulations," or which contain any of the restrictive provisions of Article 9 of the "Regulations," the recipient shall submit to the examination and approval authority an application together with a report detailing the reasons why his application should be approved.

Article 22. Amendments to the content, prices, duration, and time limit for secrecy clauses in technology import contracts which have already been approved must be negotiated and agreed upon by all parties who have signed the contract and must obtain a written consent from the original examination and approval authority. If the said amendment does not conform with the originally approved technical specifications or if it exceeds the originally approved amount of foreign exchange, procedure for examination and approval must again be instituted according to Article 4 of the "Regulations" and Article 6 of the present Detailed Rules.

Article 23. The authorized examination and approval authority shall, within 10 days from the approval of the technology import contract, send a copy of the "Certificate of Approval of Technology Import Contract" together with all other relevant data to MOFERT for their record.

Article 24. Whenever transacting such matters as bank guarantees, letters of credit, payments, settlement of exchange, reporting and paying tax during the currency of the technology import contract, the "Certificate of Approval of Technology Import Contract" or its copy shall be presented, as prescribed by regulations, to the

authority in question; if this document cannot be produced, the bank, customs, or tax offices may refuse to take action in the matter concerned.

Article 25. MOFERT is charged with the interpretation of these Detailed Rules, which may be amended by MOFERT.

Article 26. The present Detailed Rules shall come into force on the day of their promulgation; the "Measures for the Approval of Technology Import Contracts," promulgated by MOFERT on 18 September 1985, shall cease to be in force as of that day.

9808

EAST REGION

Zhang Dinghong Discusses Party Building
40050339a Shanghai JIEFANG RIBAO in Chinese
2 Jun 88 p 1

[Article by correspondent Zhou Zhiqiang 0719 2535 1730: "Inauguration of a Seminar Jointly Sponsored by the Municipal Discipline Inspection Commission and Others"]

[Text] Yesterday, a seminar was held with the theme: "In the Course of Reform and Opening Up, Strengthen Party Building." Wu Bangguo [0702 6721 0948], deputy secretary of the Municipal Party Committee, and Zhang Dinghong [1728 1353 7703], secretary of the Municipal Discipline Inspection Commission, were present at the opening ceremony and gave speeches.

The present seminar was jointly sponsored by the Municipal Discipline Inspection Commission, the Organization Department of the Municipal Party Committee, the Propaganda Department of the Municipal Party Committee, and the Party School of the Municipal Party Committee. Over 190 papers were presented at the seminar, touching on such subjects as the party's ideological, organizational, work-style, and institutional responses to the new situation created by reform and opening up, and the solution of new problems that have arisen in party building under these new conditions.

In his speech, Zhang Dinghong fully asserted the significance of discussing the theory of party building. He said, studying party building during this time of reform and opening up is an important and indispensable aspect of deepening our theoretical understanding of the initial stage of socialism. Zhang Dinghong pointed out that the key to maintaining good party work style and a good political style, to maintaining honesty and purity in party and government organs, and an attitude of rendering service to the people, is to rule the party with severity. This is not a matter of using power; if the party is to rule the party, it means implementing a policy of administering party affairs with severity, and acting in accordance with the provisions of the party constitution in the development, education, supervision, commending, penalizing, and purging of party members, and not to lower our standards. He also expressed the opinion that party and government organs must not engage in trade, as otherwise this would have three harmful effects: one, it would seriously damage the image of the party and the government—as regards honesty and service to the people; second, it would corrupt party work-style and pervert social customs; third, it would of necessity lead to an authoritarian administration of commerce, the misuse of power for selfish gain, and competing with the people for profit.

Among the leading cadres who attended yesterday's seminar there were also Zhou Ke [0719 0344], Chen Zhili [7115 5267 4539], Gao Wenkui [7559 2429 7608],

and others. Yan Jiadong [0917 1367 2767], vice principal of the Party School of the Municipal Party Committee, presided over the opening ceremony.

9808

CENTRAL-SOUTH REGION

Press Reform in Hainan Province
40050348a Hong Kong CHING PAO [THE MIRROR]
in Chinese No 6, 10 Jun 88 pp 46-47

[Article by Lin Ye 2651 0673: "Hainan Province Permits Private Newspapers; Sun Xupei Talks Freely on the Press Law"]

[Text] The main substance of the Press Law covers three aspects, namely the questions of freedom of the press, private-run newspaper and publishing businesses, and the question of newspaper criticism and control of public opinion. Precisely these three aspects are also the three difficulties in formulating the press law.

At the second press release conference of the Seventh NPC, which closed recently, Liang Xiang [2733 4889], leading cadre of the Preparatory Group for the Establishment of Hainan Province (in the meantime officially appointed governor of Hainan Province), when talking of the cultural policy of Hainan, a region for advance experiments in reform, said: Our policy is promoting what is beneficial, permitting what is not harmful, shunning what is harmful, and suppressing what is illegal. As long as they do not violate any of these principles, publication of private-run newspapers will be permitted.

Whether private-run newspapers are allowed has always been a sensitive and extremely "political" topic among press and mass media circles on the mainland. During the anti-Rightist movement of 1957, many members of the press were labeled "Rightists" in particular because they had proposed to operate newspapers run by themselves with colleagues or by private citizens. From that time on, "private-run newspapers" had almost become a forbidden zone into which no newspaper man would dare to venture. When Liang Xiang, in his capacity as highest leading cadre of a province, openly spoke out as mentioned above in front of many Chinese and foreign reporters, the thoughts that came to the mind of the people were: What will the future setup of newspapers and mass media be in the Hainan special administrative district? What is the final wording of China's first press law, the drafting of which was heralded with so much fanfare?

This writer was informed that not long ago Li Pu [2621 2528], vice president of the All-China Journalists Association, and Sun Xupei [1327 2485 1014], vice director of the Journalism Institute of the Chinese Academy of Social Sciences, had made a special trip to Hainan to investigate the local conditions of the press. During their stay on Hainan, Sun Xupei, always an open-minded man

with courage to speak out, delivered a speech on the invitation of the HAINAN RIBAO and the HAINAN KAIFA BAO, when he spoke at length on the issue of the Press Law, a topic he was expert in, having just participated in its drafting, and on the prospects of journalism on Hainan. After an overall adjustment, I wish to present the relevant parts of his speech for the benefit of my readers.

The Press Law Must Have an Anticipatory Quality

Sun Xupei expressed the opinion, speaking of the general structure, that the formulation of the Press Law had to show an anticipatory quality; it had to have much implicit meaning and a good measure of farsightedness, so that this law will be able to play a role for a considerable length of time to come. In other words, the Press Law must not be drafted by merely giving consideration to the present conditions of journalism, but must be written with a view to standards that journalism should achieve under the impulse of reform of the press, and with a view to the situation that should be realized, only then will the Press Law achieve excellent results that will benefit society. If it would lack this anticipatory quality, if it would only legally consolidate the current state of journalism, and thus not be done right, the Press Law would, on the contrary, become an obstacle to press reform and a stumbling block for the progress of journalism.

In another respect, this Press Law should certainly contain clear norms of a prohibitive character, so that everything that is not forbidden shall be allowed. In that respect too, we have had experiences and lessons to learn from. In the past, we did have something like rules for journalists, but these rules merely used exhortative language, telling journalists what to do and what not to do; they did not have the binding force of law. How could they possibly be effective? Furthermore, the rules of the past were fond of including such phrases as "must propagate the four cardinal principles," and "must propagate Marxism-Leninism." Extensions like these, broadly worded and in rather vague language, not in proper legal language, were to be norms on the basis of which distinctions had to be made. They made it easy to declare journalists to be in violation of the law, while no true usefulness of the law was ever achieved. It is therefore necessary to use norms of prohibitive character, only then will law achieve full authority, and only then will journalists have a measure of freedom.

Three Great Difficulties in Formulating the Press Law

Speaking of the substance of the Press Law, Sun thought there were three main aspects: freedom of the press, the issue of privately run newspapers, and the question of newspaper criticism and control of public opinion. These three aspects are also precisely the three great difficulties in formulating the Press Law.

Freedom of the Press Must be Firmly Secured in the Press Law

In Sun Xupei's opinion, freedom of the press must definitely be spelled out in the Press Law. Essentially, freedom of the press is freedom of speech of the masses under the system of socialist democracy, voiced through the media of the press. Freedom of the press, therefore, not only has to be written in, but must, furthermore, be written in detailed, clear, and specific terms. What is actually freedom of the press, how can implementation of freedom of the press be guaranteed? All these questions must be dealt with and appear in the text of the law. Each one of China's various constitutions since the founding of the PRC contained the phrase: "The citizens shall enjoy freedom of speech and freedom of the press." But whenever anyone mentioned freedom of speech and of the press, he would immediately be questioned: "What kind of a freedom do you want?" Subsequently, this phrase became empty words, never to be usefully applied or implemented. Actually, freedom of the press is a freedom for press and mass media to handle their affairs according to their own norms, provided the constitutions and all laws are duly respected. According to this definition, Sun Xupei believed that except in times of a nationwide state of emergency, every form of press control must be abolished. If a state of emergency is proclaimed for a limited region, press control may be instituted in that region, but need not be extended to the entire country.

When he came to this subject, Sun pointed out that in view of the present situation would it not be appropriate to add a paragraph to the effect that a newspaper that is the official organ of a political party is under the constraint of that party's direction and discipline, and cannot apply for its case the rule of not restricting a newspaper's freedom. That means that the official organ of a political party will still have to accept press control by its party. Some believe that adding this supplementary clause will make abolition of press control a name without substance, because presently most newspapers on the mainland consider themselves official organs of the party. According to Sun Xupei, it would be highly unscientific if most newspapers on the mainland would consider themselves official organs of the party. The definition of the term "official organ of the party" is very restrictive, and most newspapers on economics, the legal system, on science and technology, and the great variety of newspapers on specialized fields, must not be considered party organs. In actual fact, the mentioned improper assumption has evolved under conditions when private-run newspapers were not allowed and when all press media were monopolized by the party. After privately run newspapers are permitted and have been developed, there is now competition by all kinds of newspapers on the basis of equality, and nonparty newspapers can truly enjoy a very large measure of freedom. Even for party organs, which are subject to press control, the measure of freedom is much larger than it used to be.

Citizens Should Have the Right to Engage in the Newspapers and Publishing Business

The second difficulty in formulating a press law is, in Sun Xupei's opinion, whether it is possible to affirm in law that citizens have the right to engage in the newspaper and publishing business.

For more than 30 years after the founding of the PRC, the Chinese communists followed the Soviet example in this matter. All the time since the October Revolution, it was the rule in the Soviet Union that newspapers are a state affair, and that all rights of newspaper and other publishing are in the hands of the state, so that citizens had no way to intrude into this sphere. In the early years of the PRC, the Chinese Communists had accepted the Russians as their teachers and therefore, of course, also considered newspapers a state affair. In the course of time, this became the accepted concept: all publishing is to be done by the state. We find this phrase, rethinking it and carefully analyzing it, now to be in violation of the constitution. The constitution prescribes: Citizens shall enjoy freedom of speech and freedom of publication. The subject of "enjoy" are the citizens and not the state. Of course, the state represents the people, and the publishing trade cannot possibly, and need not be completely taken on by all the private citizens. But having the whole trade monopolized by the state, and leaving no direct publishing rights (i.e., rights to run newspaper and publishing businesses) to the citizens, leaving them only with the little right and freedom to contribute articles, I am afraid, can hardly be said to be in accordance with the spirit of the constitution. As it appears, coexistence of government-run and privately run newspapers, operation of official organs and of newspapers run by groups of colleagues, should be the new framework of China's newspaper trade in the era of reform and opening up.

Ensuring the Right of the Mass Media To Control Public Opinion

The press law has another important task, namely by means of law to ensure the right of the mass media to control public opinion. In this respect, Sun Xupei emphasized the concept of control of public opinion. He believes there are many differences between control of public opinion and the traditional concept of newspaper criticism. First of all, newspaper criticism is a unitary criticism, while control of public opinion can be criticism and can also take other forms; suggestions, investigations, consultations, demonstrations, even implying censure in praise, all may be used in the control of public opinion. Next, the traditional newspaper criticism differentiates by ranks. On the mainland, generally speaking, a newspaper of a certain rank may only criticize leadership in a rank lower than its own rank. It may not criticize leadership of its own rank, and even less leadership of a higher rank. It is very difficult to break down this concept which has become a long-standing custom. For example, when the SHEKOU TONGXUN BAO criticized—and it was only a mild criticism at that—the

party committee of the Shekou Industrial District, which was of equal rank, it evoked a strong reaction. This as such is abnormal, and indicates the restrictive nature of traditional newspaper criticism. Control of public opinion disregards the rank of the party being criticized, but only emphasizes the substance of the criticism, whether it is factually true, and whether or not it violates any law. A new press law should incorporate this concept of a modern society's control of the public opinion, and should not continue an approval system for criticism. Criticism should be responsible only for its facts and for observing the law.

In substance, the above-mentioned three aspects are primarily concerned with ensuring the rights of the press and mass media. Sun Xupei, of course, also acknowledges that when making a law, the press law, in addition to including clauses which sufficiently ensure the legitimate rights of those working with the press, it is also necessary to set out restrictions and penalties for illegal acts by the press and mass media. But in comparing the two, priority should still be given to the protective provisions.

Three Suggestions for the Press of Hainan Island

Talking of the present condition and development of the press of Hainan, Li Pu and Sun Xupei, after touring all of Hainan Island, thought that the press on Hainan is presently still rather backward. In view of Hainan's prospect of becoming the whole country's most "open" special economic zone, it would be necessary to accelerate the reform and build up a very widely "opened up" information environment. They therefore made three suggestions for the development of Hainan's press:

1. They suggested that the authority for examining and approving the establishment of press organizations be placed with Hainan Province. In the past, establishment of every kind of press or publication organization, for the most part, had to have the nod of approval from the Central Propaganda Ministry or the Press and Publications Administration. After Hainan has become a province, there is a great difference to other provinces in its economic and social development. Placing the authority for examination and approval of the establishment of press and publication organizations with the province would lay an excellent foundation, well suited to actual conditions, for the future development of Hainan's press undertaking at many levels and in a variety of fields.

2. Diverse ownership systems should be allowed to exist side by side. Press organizations could be of the type of ownership by the whole people or owned according to a shareholder system, attracting capital from Hong Kong, jointly foreign capital take up shares, or in the form of jointly organized press organizations; what is there that would not be permitted? Of course, in press organizations with combined capital, Hainan Province should keep control of the principal editorial decision-making powers.

3. Hainan's newspapers shall be able to criticize and comment on Hainan's provincial party committee. If the criticism is inconsistent with facts or contains errors, the government must rectify and clarify through its spokesperson, and the newspaper will have to print these clarifications. At the same time, a press assessment committee should be set up, to evaluate and supervise press activities. The press assessment committee should

be composed of socially prominent persons, workers in the press field, and officials, to one-third of each group. The government may state its intentions to the press assessment committee, but must not order the press to print anything and how to print anything.

9808

**Trade Delegation Approved To Visit Vietnam,
Investigate Prospects**

40060388 Taipei LIEN-HO PAO in Chinese
24 Jun 88 p 4

[Text] The Executive Yuan just approved a request by private businessmen to organize a delegation to visit Vietnam to investigate economic and market conditions in that country. This landmark decision paves the way for similar activities (visiting and opening direct contacts with Communist countries with which our ties have thus far been limited to indirect trade) in the future and hints that direct trade will follow closely on the heels of direct contacts. Clearly, our economic and trade ties with Communist countries other than the Chinese mainland are about to grow closer.

This visit, which was proposed by the China External Trade Development Council, will undoubtedly raise our relations with Vietnam to the status of "direct contact." And when businessmen from the two sides meet face to face, they will surely exchange information on commercial conditions in their respective countries and pave the way for exchange of commodities. Most important is the fact that the Board of Foreign Trade disclosed yesterday that, because Vietnam lacks foreign exchange, trade between the two sides may take the form of "counter trade".

Now, counter trade is barter trade, an exchange of goods for other goods, which, as trade goes, is difficult to effect through third parties and must be conducted "directly" [the remainder of this sentence is garbled and repetitious]. And if trade is going to be direct, why does one need to insert a third party in the middle of the relationship? Furthermore, in announcing the afore-mentioned decision, the Board of Foreign Trade repeatedly stated that Vietnam greatly needs complete sets of plant machinery and equipment from us and that we could use Vietnam's rattan and made no mention of any need for continued adherence to the indirect-trade formula, an omission that suggests the possibility of direct trade between China and Vietnam.

There are signs that restrictions on trade with other Communist countries will also be relaxed. A few days ago, a Taiwan provincial business group submitted an application to organize a fact-finding visit to the Soviet Union. The application has not been approved yet, but this by no means implies it has been rejected, either.

According the Board of Foreign Trade, the application was vague and incomplete, but if the group supplies additional information concerning the proposed itinerary and how many people will participate and submits letters of invitation and other administrative details, the bureau will follow the same procedure employed for the China External Trade Development Council and transmit the application to the Executive Yuan for examination and decision.

Once restrictions are relaxed on trade with Vietnam and the Soviet Union, it is believed that similar moves will follow with respect to Cuba, Albania and even North Korea, so long as the moves facilitate diversification of our foreign trade markets.

12431

**Country's Economic Prospects Tied to S&T
Improvements**

40060290 Taipei CHUNG-YANG JIH-PAO in Chinese
14 May 88 p 3

[Editorial: (II) Taiwan's Prospects For Economic Development Lie in Improving Scientific and Technical Standards

[Text] The Executive Yuan's 10th Scientific and Technical Advisory Conference got underway on 9 May at the Executive Yuan Auditorium, chaired jointly by Executive Yuan Minister Without Portfolio Li Kuo-ting [2621 0948 7844], State Science Commission Chairman Ch'en Lu-an [7115 1462 1344], and senior advisor Dr. Sai Ch'ih [6357 7459]. Our foreign advisors, including energy S&T advisor Dr. K'o Lun-pao [2688 0243 1405], who is on his first trip to Taiwan, all attended in person. The conference concluded on 12 May.

Nine years have passed since the Scientific and Technical Advisory Conference first convened in 1980, and in that time it has made significant contributions in advancing S&T research, formulating S&T policies, and improving S&T standards. Perhaps because of the scientific and technical nature of the subject, and because it is specialized and intense, nonspecialists have been unable to understand it. Thus, people have not paid attention or attached importance to the achievements that have resulted from these conferences—even the mediator that was broadcasting to the public. A small number of newspapers have even gone so far as to cover the event and then not report on it—what a surprise. On the afternoon of 12 May, Ai Ke-han [5337 2706 3352], advisor on scientific and technological policy and basic scientific education, and Shih Po-lo [0670 0590 3157], advisor on the development of a scientific and technical labor force, gave a public address at the National Central Library on "The Functions and Activities of the State Laboratory." The audience was very sparse in the 200-person capacity International Conference Hall, numbering only 20 to 30 people. Evidently Taiwan's academic and scientific and technical circles gave the talk a cold reception. This lecture should not have been too deep, but although most people realize the importance of the State Laboratory, the relevant Taiwanese academic circles remained indifferent toward the event. Could it be that there was insufficient advance notice? Or was there really nobody who cared? It is hard to understand. What impression and what effect will this reaction produce in the two sincere foreign advisors who prepared so thoroughly in advance? This is something that the parties concerned should review and discuss.

Although Taiwan's economy has developed rapidly in the past 5 years, it has also met with some serious domestic and foreign setbacks. As for the foreign factor, because export growth has been so rapid in Taiwan, our favorable balance of trade figures have increased progressively—particularly in bilateral trade with the United States. In 1987 the favorable balance of trade figures ballooned to \$16 billion. This not only fueled the cause of U.S. trade protectionists, it simultaneously increased the pressure being applied to Taiwan. Consequently, in 1986 the new Taiwan dollar began a sustained, large-scale rise against the dollar. At the same time, in response to U.S. demands, Taiwan has not only continuously lowered tariffs and increased American imports, it has also opened part of its agricultural products market to the United States. Domestically, in the past few years environmental protection concerns and labor consciousness have grown with each passing day. This has not only made it difficult to put new investment proposals into effect, it has also brought boycotts of certain existing industries. As for the labor strikes and relief efforts, they have forced some foreign investors to consider withdrawing, and some domestic investors are also considering investing abroad. As a result, the rate of investment growth in Taiwan ground to a halt in 1987. This situation is cause for concern.

Since we are faced with this situation, it is obvious that we must make suitable adjustments in the direction of Taiwan's future economic development. In order to cope with the foreign and domestic setbacks that have beset us, our efforts at readjustment must be directed toward improving our scientific and technological standards, developing new products, improving industrial composition, and elevating the quality of life. But in order to improve the level of domestic science and technology, we must prudently resolve the following issues.

First, we must untie the knot of conflict between domestic environmental protection and industrial development. In reality the two are not mutually exclusive, and can both be achieved together. The question is merely one of how to achieve coordination between the two. But environmental consciousness seems to have developed beyond any reasonable level—there is a tendency to argue that in order to safeguard the environment, we must abandon industrial development. As a result, there has been opposition to Du Pont establishing a plant in Taiwan, to the Wu Ch'ing Liu Ch'ing [0063 6535 0362 6535] investment projects, and to nuclear power plants, as well as resistance to a liquified petroleum gas receiving station. We believe that, admittedly, environmental protection is important, but we must not allow industrial development to be neglected. In principle, we should weigh the benefits and choose what is most important, and weigh the disadvantages and choose whichever is least harmful. We must discover how to sustain constant industrial development under the highest tolerable pollution level. And this is a problem that science and technology should be able to solve. Consequently, we hope to regain a sober and reasonable standpoint on the

conflict between environmental protection and industrial development, so that we will not be swayed by our feelings and act rashly. Otherwise it will be society as a whole, including you and me, that will be harmed.

Second, it will require an enormous outlay to improve the level of science and technology. Not only will we have to pay a high price for various research projects and to purchase experimental equipment, we will also need to provide reasonable funding to train and employ scientists and technicians. Compared to economically well-developed nations, the funds Taiwan spends to develop science and technology are patently inadequate. They do not even come up to the level of funding provided in South Korea. For example, if we look at the ratio of total outlay on research and development to GNP for various countries in 1986, we find that it was 2.02 percent in the United States, 2.51 percent in Japan, 2.75 percent in West Germany, 2.06 percent in France, and 1.59 percent in South Korea, but only 1.06 percent in Taiwan—only half what it was in economically advanced nations. At the same time, if we look at the ratio of R&D to business turnover in private enterprise, we see that in the relatively crucial fields of electrical and electronic equipment manufacturing and the information industry, it is only 2.79 percent in Taiwan, whereas it is 4.12 percent in South Korea. When funding is inadequate, circumstances make it difficult to achieve reasonable success. Consequently, in the future the government and private industry should increase funding for research and development in order to provide the facilities and talent we need for scientific and technological research.

Third, we must focus on basic scientific research. Science and technology is conducted on two levels—applied and basic. Applied science is a product of basic science. Right now the focus in Taiwan is slanted toward the applied side of science and technology, to the neglect of basic scientific research. In reality, applied science and technology can be imported from abroad, but after scientific and technological applications are imported it will be difficult for them to take root if there is no basic scientific foundation. Developing basic science is an issue that relates to scientific education. The appropriate sections of the educational establishment must make every effort to plan and coordinate funding, curricula, teachers, equipment, and cooperation with foreign academic organizations.

Fourth, scientific and technological development is an overall national concern, not the sole responsibility of any one sector. It requires coordination among all sectors of society. Consequently, the government, academic circles, and enterprise should cooperate with each other and push forward together. Right now academic circles and enterprise seem to be out of sync with each other. Academics do not understand enterprise needs, and enterprises seldom tap academic circles for talent. We should find a way to eliminate this misunderstanding

and blend the two fields together. If we do, we will begin to have prospects for rapid improvement in our scientific and technological standards.

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Factors in Price Hikes, Methods for Maintaining Stable Prices

40060348 Taipei CHINGCHI JIHPAO in Chinese
22 Jun 88 p 2

[Editorial: "Concerns and Measures for Handling Price Fluctuations"]

[Text] The factors created by the raise of transportation fees being made to correspond to salary adjustments the 1st of next month for the military, government workers, and teachers, along with the price increase of many international products could have an unfavorable influence on domestic prices. Whether or not domestic prices can remain steady is a matter that should receive deep concern from all quarters. Officials of the Ministry of Economic Affairs and the Central Bank believe the adjustments to military, government workers, and teacher salaries and the changes in transportation fees will not have a large effect on domestic prices. But with today's state of mind being that rising prices and proliferation are expected, we feel that government authorities cannot take problems concerning prices lightly. They must pay close attention, adopt appropriate measures at the right time, and eliminate the state of mind of expecting price increases, in order to sustain stable price levels.

Domestic prices have been very stable for the last two or three years with the wholesale price index even showing a slight tendency to drop and the consumer price index showing only a minute fluctuation. By April of this year, however, the trend had already changed. In approximately three months wholesale and consumer prices rose 0.46 percent and 0.12 percent respectively. By May wholesale and consumer prices had risen in approximately four months to 0.87 percent and 1.14 percent respectively. This increase for two successive months and the obviously growing increases are warnings that we should pay attention to how the stable price situation will be effected over the next two or three years.

On the 1st of next month the wages of the military, government workers, and teachers will be raised by an average of 8 percent. Transportation fees will also be raised in the near future by an average of 22.97 percent. It is generally thought that these are the two factors that may influence price fluctuations during the last half of this year. Based on past experience, a raise in wages for the military, government workers, and teachers is usually followed by a salary increase in privately operated enterprises causing the wage level to rise and leading to a rise in price levels. An increase in transportation fees in addition to its direct effect of raising consumer prices, (according to indications from a Ministry of Economic

Affairs price report this transportation fee increase will cause the consumer price index to rise by 0.16 percent) will also have the effect of raising general price levels by increasing transportation costs for firms. In addition to this, the international grain market has been affected by the serious drought in the United States causing a large rise in prices and has had a very unhealthy effect on domestic prices. In fact, the price of domestic salad oil has already been adjusted upward three times in the last month. Consequently, the wage increase for the military, government workers, and teachers, along with the increase in general price levels plus the rising prices in transportation fees and many other goods and materials adding fuel to the flames may very possibly threaten the stable price situation.

With the situation mentioned above, the aspect most worth paying attention to is present society's amount of liquid assets. As everyone knows, the huge surpluses sustained of late have brought about a rather high rate of increase in currency supply and is the most important factor in the overabundance of funds. This is also the greatest potential danger to stable prices. The annual supply of currency increase has exceeded 30 percent for over two years. The populace currently has a great deal of liquid assets such as time deposits in banks, various kinds of government and private bonds, and short-term notes. During periods when people are expecting prices to rise, these assets can be readily changed into cash to seek out relatively scarce goods and materials further spurring the rise of prices.

In the last two or three years during periods when there was a high rate of currency supply and an overabundance of funds, domestic prices were still maintained in a stable state. This was mainly due to the effect of a large reduction in tariffs, restrictions being lifted on imports, a drop in international oil prices, and the rise in value of the new Taiwan dollar. After a little further probing it can be seen that although domestic prices are very steady, substantial and significant inflation has already occurred. For in an open and free enterprise society there are many factors favorable for steady prices and many in fact promote a decline in prices. Under these effects prices have remained steady but have not fallen which shows that general price levels are already rising. Attention should be paid to this matter, hopefully the concerned departments in the government won't feel complacent with stable prices and neglect to adopt appropriate measures.

In the present economic and financial situation, the biggest concern regarding stable prices is the mentality of expecting prices to rise. The direct effect on price levels by the salary raise for the military, government workers, and teachers, the increase in transportation fees, and the price rise of many items is limited but combined with the strong initiative of the expecting prices to rise mentality could lead to large scale price increases. The mentality of expecting prices to rise has been gradually formed due to the recent hurricane in the stock market, the sharp

increase in the prices of real estate, plus the cost increases of many service industries and higher wages. The salary increase for the military, government workers, and teachers along with the price increase of many international goods will cause a gradual expansion of the mentality of expecting prices to rise and enable it to spread to every social stratum. With just the strength of its effect varying in different areas. To put an end to this

state of mind, the present situation of stable prices should be considered the most urgent matter. Hopefully the concerned authorities will face up to the existence and seriousness of this problem and adopt effective and suitable measures to safeguard the stable price situation.

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