

006097

JPRS-CEA-85-085

23 September 1985

China Report

ECONOMIC AFFAIRS

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19980810 117

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23 September 1985

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NATIONAL POLICY AND ISSUES

ON SAFEGUARDING RIGHTS OF INDIVIDUALLY-OWNED ENTERPRISES

State-Run Enterprises Warned

Xi'an SHAANXI RIBAO in Chinese 24 May 85 p 2

[Article by Xu Baiqi [6079 4102 3823], Assistant Director, Provincial Administrative Bureau for Industry and Commerce: "Legitimate Rights and Interests of Individually-Owned Enterprises Should Be Protected"]

[Text] A recent incident in which workers in a state-run transport unit beat up a driver of an individually-owned bus is not a solitary one. Incidents such as this occur time and again in Shaanxi.

In recent years, under the guidance of party Central Committee policies, individually-owned commercial enterprises in Shaanxi have developed more rapidly. As of the end of April 1985, there were 235,000 such enterprises, employing 348,000 persons. These enterprises have played a positive role in stimulating Shaanxi's economy, affording convenience to the masses, solving employment for excess labor in rural areas, and speeding development of tertiary industries.

But when compared to advanced provinces and cities throughout the nation, Shaanxi's individually-owned transport enterprises and other businesses remain slower in development. Many reasons can be cited for this, but the main one is the influence of "leftist" thinking. Some comrades continue to feel that development of this type of economy will adversely affect a state-run economy and squeeze out the economy of collectivization. As yet, these comrades do not completely grasp that "adhering to the concurrent development of a variety of economic patterns and approaches to management is a long-term policy necessary for the advancement of socialism." In reality, where a variety of these patterns and approaches are permitted to coexist, there will necessarily be competition. But this competition is beneficial. It can only be used to an advantage in destroying the blockade and monopoly of state-run enterprises, in hastening improvement of management in production, and in advancing toward a more reasonable development. Naturally, in the operation of this type economy, certain negative aspects and illegal activities are inevitable. But the development of this type economy must never be restricted; there must be no refusal of renovation for fear of making mistakes. It should be apparent by now that this type of economy has not undergone a long period of development; thus it is still very weak in terms of capabilities. Therefore, it is necessary to afford it the same treatment as a state-run enterprise economy and to take action to foster its development. In

certain respects, however, it is not like that now; instead, barriers have been erected, things are made deliberately difficult, pressures are exerted, and fights erupt in revenge. For example, some comrades do not render assistance to farmers engaged in agriculture as a profession in locating places to conduct business, forcing them instead to move from place to place. Other units supply goods, rigidly assigning quotas of slow-moving commodities, making normal business operations impossible. Some units charge fees and levy fines indiscriminately and confiscate papers for no reason. Others delineate boundaries and set up separate businesses, refusing entrance to outsiders. What's worse, some find excuses for arguments and start big fights, infringing on the legal rights of those engaged in individually-owned enterprises. If these unhealthy situations are not completely corrected, an economy based on individual production will not develop rapidly in Shaanxi.

The Constitution clearly states that: "An economy based on individual ownership by laborers in cities and villages that operates within the scope of laws and regulations supplements the public ownership system of socialism. The state protects the legal rights and interests of an economy based on individual ownership." The Dali incident has infringed on the legal rights of those engaged in an individual ownership economy, constituting a transgression of the law. The incident should be severely dealt with.

Urgent Transportation Department Message

Xi'an SHAANXI RIBAO in Chinese 12 June 85 p 1

[Article by Zhou Zhenqing [0179 2182 3237]: "Protect the Rights and Interests of Individual and Joint Transport Households"]

[Text] Recently, a few incidents involving fights have occurred repeatedly, causing trouble for individually-owned households engaged in highway passenger transport. For this reason, the Provincial Transportation Department recently dispatched an "Urgent Notice on Safeguarding the Rights of Individually-Owned and Jointly-Owned Households Engaged in Transport."

The "Notice" stated that throughout the province, there are now 200 individually- and jointly-owned buses which supplement the inadequate passenger transport capabilities of provincial transport units, ease the inconsistency of "no buses" for the masses, and at the same time provide an impetus for upgrading the quality of service and improving the management of state-run and collectivized transport enterprises. The new trend is for each level of responsible transportation departments and heads of transport enterprises to further liberate their thinking, eradicate "leftist" influence, and implement policies in earnest which deal with state-run, collectivized, and individually-owned enterprises together.

Diligently carry out an examination of regulations and measures enacted at the local area and local unit levels; cease implementing immediately those which do not mesh with the spirit of relevant documents from the Central Committee and State Council. Routes approved for individually- and jointly-owned households engaged in the transport business are protected by the laws of the State; no department, unit or individual is to interfere with their normal productive

activities. Listen attentively to suggestions concerning problems arising in businesses, and actively assist in solving these problems. State-run bus stations must gradually open their doors to outsiders and offer services for payment. Individually-owned households engaged in transport can also establish their own stations and stops upon obtaining approval from local authorities in charge (such as security, planning or transport).

The "Notice" pointed out finally that competent departments at each level in transportation must assist individually-owned households in increasing their awareness of the importance of implementing related policies and regulations, and educate them to become role model in observing the law. Moreover, ground-work should be strengthened, road checks gradually reduced, detaining of vehicles and confiscation of papers not permitted, and fewer fines levied. Managerial personnel in the transportation sector must abide by the law. The use of power to produce personal gain is strictly prohibited. Badges and ID must be worn while on duty, otherwise drivers will have the right to refuse inspections. Henceforth, if something happens because managerial personnel break the rules, the matter will be dealt with harshly.

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CSO: 4006/821

NATIONAL POLICY AND ISSUES

NORTH-SOUTH COMMUNICATION LINE COMPLETED

HK030318 Beijing ZHONGGUO XINWEN SHE in Chinese 1417 GMT 2 Sep 85

[Text] Guangzhou, 2 Sep (ZHONGGUO XINWEN SHE)--The laying of the Beijing-Wuhan-Guangzhou carrier coaxial cable, a long-distance communication line from northern to southern China, has been completed, checked and accepted by the government. It was inaugurated in Guangzhou today. Attending the ceremony were Yang Taifang, minister of posts and telecommunications, and Guangdong provincial leaders.

This key communication project of China with a 400 million yuan investment covers, 2,720 km starting from Beijing, running through Hebei, Henan, Hubei, Hunan and Guangdong and terminating at Uangzhou. This communication line laid underground from 1.2 to 1.5 meters cuts through the four major rivers of the Huang He, the Huai He, the Chang Jiang and the Xiang Jiang as well as the precipitous Juifeng mountains where Hunan Province and Guangdong Province meet. More than 2 million laborers worked on the project and over 2 million cubic meters of earth were dug out.

The key communication project was designed and constructed by China itself in line with the world advanced level. The present phase of project can provide 9,634 long-distance telecommunication lines. Of these, there are 2,748 lines connecting Beijing with all provincial capitals and 6,876 lines connecting provincial capitals with other parts of all provinces (including high-frequency transmitting circuits). It is expected that 2,604 service telephone lines will be available this year. Thereby trunk calls from Guangzhou to Beijing and the provinces covered by the project will be much more unimpeded and clear. With the help of coaxial cable and micro wave circuits in Guangdong, the province will gradually provide direct-dail long-calls.

CSO: 4006/902

NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON THEORY OF SOCIALIST OWNERSHIP

HK200939 Beijing GUANGMING RIBAO in Chinese 3 Aug 85 p 3

[Article by Liu Shibao [0491 6108 4101]: "A New Probe Into The Theory of Socialist Ownership"]

[Text] An important task of our country's economic structural reform is to probe into and establish a pattern of socialist social ownership which is more suitable for the nature of our productive forces. For this reason, we should carry out an in-depth probe into the nature and characteristics of the socialist social ownership, and establish a scientific theory on socialist ownership.

The Pluralistic Nature of Socialist Ownership

The complexity and manifestations of the socialist ownership system are characterized by its pluralistic nature. It is appropriate to say that this is a common characteristic of all social formations, and a distinguishing feature of all new social formations at their preliminary stage in particular. This is determined by the fact that production relations must conform to the nature and laws of the productive forces. Various kinds of productive forces which belong to certain social formations have their own "general characters". However, the conditions of the material productive forces in social practice are not so uniform. There is a certain unevenness in different fields. For example, the specific conditions of productive forces might not be the same in industry and agriculture, cities and rural areas, different departments and different regions. Under the circumstances that the development of multilayered material productive forces is uneven, the pluralistic structure of social ownership will be demonstrated. This pluralistic nature of the ownership structure is pronounced in slave society, feudal society, and at the initial stage of capitalist society, as well the less developed stage of socialist society.

Ours is a populous and economically backward socialist country which had a poor foundation to start with. The advanced material productive forces characterized by atomic energy, the contemporary productive forces characterized by steam engines, the productive forces of the Middle Ages characterized by manual grinds and water mills, or even primitive productive forces characterized by slash-and-burn cultivation co-exist in our country.

Such multilayered productive forces will exist for a considerably long period of time. All this means that the structure of our Chinese-style socialist social ownership is determined by the long-term coexistence of public ownership, which assumes a predominant position, and other kinds of ownership of a private nature (individual ownership, and other kinds of ownership with the state capitalist nature suitable for the transitional period). In other words, the structure of our socialist ownership will remain pluralistic for a very long time.

The Diversification of Socialist Public Ownership

The concept of diversification of public ownership is different from that of ownership with a pluralistic nature. The diversification of public ownership means the coexistence of various kinds of ownership which are not different in their basic nature. It only means differences within public ownership, and differences in degree of socialization. For example, with regard to ownership by the whole people, collective ownership, and combined ownership [lian he suo you zhi 5114 0678 2076 2589 0455], they only differ in the degree of socialization. As far as economic combines are concerned, due to the specific differences in the nature and proportion of the main component parts and the method of distribution and so on, some economic combines are closer to ownership by the whole people, whereas others are closer to collective ownership.

Our purpose in establishing the concept of the diversification of socialist public ownership is to theoretically explain that: (1) In a less developed socialist society, public ownership has a diverse and complicated structure. It consists of ownership by the whole people--which is the leading factor--collective ownership, combined ownership, and other kinds of ownership. This shows the multilayered and multilevel differences in the degree of socialization of the component parts of public ownership. Such complicated public ownership relationships conform with the uneven and multilayered development of the productive forces. (2) The concept of the diversification of socialist ownership means the long-term coexistence between collective ownership, other forms of combined ownership, and the ownership by the whole people. All these kinds of public ownership are the stable factors in the system of socialist public ownership. (3) As far as methodology is concerned, the concept of the diversification of socialist public ownership belongs to a dynamic theory of ownership. From the viewpoint of socialist commodity reproduction, this concept enables us to examine the formation, mutual effects and mutual infiltration of various kinds of ownership relationships so that we can further analyze and bring to light the infinite and specific contents of socialist public ownership. (4) According to the concept of the diversification of socialist public ownership, people decide on the proportion of various kinds of public ownership in light of the practical conditions in their own countries and establish the best structure of socialist public ownership so that socialist ownership can fully satisfy the demand of the development of the productive forces.

The Immaturity of Collective Ownership at the Present Stage

If we strictly follow the law that productive forces determine the forms of ownership, it is not difficult for us to find the immaturity of socialist collective ownership:

1. The integration of collective ownership and individual ownership concerning the means of production. According to the level of development of the rural productive forces at the present stage, the socialist agricultural labor in our country is characterized by collective production and scattered household production within a certain scope. To carry out these two kinds of labor, we should integrate collective ownership with individual ownership concerning the means of production. On the one hand, land as basic means of labor such as water conservancy facilities, power equipment, and others still belong to the collective. Only thus will the direct producers assume the duties assigned by society and the collective. On the other hand, some means of production, instruments of labor in particular, should be transferred to individual peasants so that they can fully make use of and regulate them. Only thus can we give play to the strong points of household production such as mobility, flexibility, and the adaptability to natural conditions.

2. The integration of centralized labor and scattered labor. Agricultural labor in our country based on the household contract responsibility system has demonstrated the characteristics of integrating centralized labor with scattered labor, with emphasis being placed on scattered labor. On the one hand, most producers carry out their labor in a centralized and coordinated way within a certain scope. On the other hand, to conform with the characteristics of our agricultural production, a great deal of day-to-day work in the fields of agriculture, forestry, animal husbandry, sideline occupations, and fishery is arranged by peasants themselves on the basis of scattered labor. All this effectively gives play to the coordinating role of simple labor, which is indispensable to socialist agriculture, and the flexibility and mobility of household labor and individual labor.

3. The integration of distribution of products according to work and individual ownership. An economy based on the household contract system demands a method for distribution of products on the basis of contracts. This demonstrates the strong points of obtaining direct interests and distribution of products according to work. This method of distribution will enable peasants, who make greater investment, enlarge output enormously, and increase their incomes, to get their differential land rent [ji cha di zu 4787 1567 0966 4436] as a result of their investment. This income obtained from the means of production does not entirely reflect differences in labor. This possession of products contains the factor of individual ownership on the part of small producers. Therefore, distribution on the basis of contracts is not purely distribution according to work.

All this has shown that our agricultural economic organizations are characterized by the comparatively complicated production relations, which reflect not only collective and individual operation, but also collective

and individual ownership. It is obvious that this kind of collective ownership is immature to a certain extent and suitable for the transitional period.

The Incompleteness of Socialist Ownership by the Whole People

Ours is a economically backward country with low levels of material productive forces. In its infancy, socialist ownership by the whole people is imperfect and incomplete to a certain extent.

1. The nature of socialist labor has determined that enterprises under ownership by the whole people will retain the characteristics of owning some products themselves. Under socialist conditions, labor is mainly for the public interest. At the same time, it is partly for individual interests, because it is a means of life for individuals. Material incentives are needed for such labor. In other words, remuneration of the individuals should be linked to output in the course of distribution. Therefore, as far as individuals are concerned, they should follow the system of distribution according to work and more pay for more work. As far as enterprises are concerned, they own some of the social products, and follow, to a certain extent, the principle of taking more for producing more (or taking more for making more profits). All this has determined that social public ownership of the state enterprises also reflects partial ownership by certain enterprises.
2. Due to the existence of partial ownership, socialist ownership by the whole people at the present stage is characterized by the long-term coexistence of ownership by the whole society and partial ownership of certain enterprises. This shows that collective ownership has infiltrated into the ownership by the whole people. The relationships of ownership always reflect the relationships of material interests. Under our present ownership system mentioned above, the interests of the whole people (the state), enterprises (the collectives) and individuals are ingeniously integrated. Therefore, we can arouse to the fullest possible extent the enthusiasm of the broad masses of laborers (including enterprises and the whole society), and promote the most rapid development of social production.
3. The inner integration of ownership by the whole people and collective ownership has formed a complicated ownership structure characterized by ownership of the entire society as the main part and partial ownership of enterprises as a supplementary part. On the one hand, this shows the integration of collective ownership and ownership by the whole people inside enterprises. On the other hand, this also shows the integration of ownership by the whole people and collective ownership in the entire society. Due to this complicated structure inside ownership by the whole people, the integration of funds in the course of reproduction of the commodity system will be further strengthened. This includes economic integration and the system followed by enterprises of raising funds in the society, or receiving dividends on the basis of shares.

In a word, at the present stage, the inner structure of ownership by the whole people contains the factors of collective ownership. This is a form which ownership by the whole people will inevitably follow in its infancy. Therefore, the theory of the incompleteness of the socialist ownership system has provided the theoretical basis for establishing the pattern of socialist ownership by the whole people suitable for the level of productive forces in our country.

CSO: 4006/887

NATIONAL POLICY AND ISSUES

BRIEFS

QUALITY CONTROL CENTERS--Beijing, 31 Aug (XINHUA)--The state economic commission reports it will set up 108 quality control centers to inspect and test the nation's products. These centers, using modern equipment and facilities, will supervise and make spot checks of production facilities, consumer goods in short supply and products related to health and safety. The national bureaus of standardization and quality inspection will operate the centers. [Text] [Beijing XINHUA in English 1035 GMT 31 Aug 85]

CSO: 4020/345

PROVINCIAL AFFAIRS

THREE EXECUTED, ONE SENTENCED TO DEATH FOR HARMFUL PRODUCTS

HK010928 Hong Kong AFP in English 0853 GMT 1 Sep 85

[Text] Beijing, 1 Sep (AFP)--Authorities have executed three men and given a fourth a suspended death sentence for making industrial alcohol-based liquor that killed a total of 25 people, press reports said here today.

The reports said that in one case Zuo Chenghong and Li Yongtai were sentenced to death for using industrial alcohol to produce 8,000 liters of liquor, of which they sold more than 1,000 liters.

The liquor poisoned 22 people, of whom 15 died and weven were blinded, the reports said.

The death sentences were announced yesterday by the People's Intermediate Court of Chengdu, in China's southwestern Sichuan Province, and carried out immediately.

An accomplice, Xie Liao, was sentenced to life imprisonment and deprived of his political rights for helping to produce the alcohol, the reports said.

In another case in Chongqing, also in Sichuan Province, Li Ronghui was executed for making and selling liquor made with industrial alcohol.

The liquor killed 10 people and injured four others.

An accomplice, Deng Guojing, was given the death sentence, suspended for two years, the reports said.

China's press and government have launched a campaign against a spate of dangerous low-quality and illegally manufactured products, ranging from wines and medicine to consumer electronics.

CSO: 4020/345

PROVINCIAL AFFAIRS

SHAANXI MEETING DISCUSSES ECONOMIC CRIME PROBLEM

HK310531 Xian Shaanxi Provincial Service in Mandarin 1130 GMT 30 Aug 85

[Excerpts] The 14th meeting of the 6th provincial people's congress standing committee yesterday discussed the question of cracking down hard on economic crime in the province. Committee Chairman Yan Kelun made a speech calling for heightened understanding strengthened leadership, and effective measures.

Vice Governor Zeng Shenda made a report on this topic at the meeting on 28 August. He said: According to incomplete statistics for the period January-July this year, the province ferreted out fake and inferior drugs with a total value of 1.99 million yuan, together with 124,000 jin of rotten food, 5.21 million bottles of rotten drinks, 30,000 jin of rotten meat, and 1.76 million jin of polluted grain. It also discovered a number of fake Jeifang trucks, Fenghuang and Feige bicycles, and so on.

Zeng Shenda said: Important factors for the marked increase in economic cases are over-lenient handling of some economic cases, failure to deal effective blows at criminals, and the unhealthy trends and bureaucratism in certain state organs, enterprises, and other units. In addition things have also been made more easy for lawless elements by serious shortages of certain high-grade products and production materials, the urgent need of consumers and production enterprises to buy such materials to satisfy their needs, and the basic lack of knowledge of commodities and of the law.

Zeng Shenda put forward the following views on cracking down on economic crime in the future:

1. Integrate cracking down on economic crime with popularizing common knowledge of the law.
2. Those who break the law must be punished, and the law must be strictly enforced. Leading comrades responsible for the work of the public security organs, procuratorates, and courts in the prefectures and cities must dare to tackle tough problems, get a vigorous grasp of major and important cases, and clearly define responsibilities. The facts of such cases must be thoroughly unwearthed.

3. Take stock of and straighten out the companies and centers of various types. Illegally-operated companies must be resolutely closed. The operational scope must be laid down for certain companies.

4. Set up rules and regulations and put them on a sound basis, so as to block loopholes.

5. Cracking down on economic crime is a long-term task. Apart from the use of the law by the judicial and executive departments to crack down, it is essential that the offices of the provincial CPC committee and prefectural and city offices for cracking down on serious economic crime step up coordinated efforts.

CSO: 4006/902

PROVINCIAL AFFAIRS

GUANGDONG PLANS TO TEMPER HIGH ECONOMIC GROWTH

HK290401 Beijing CHINA DAILY in English 29 Aug 85 p 3

[Article by staff reporter]

[Text] Guangzhou--Industrial output in Guangdong Province reached 23.16 billion yuan (\$7.1 billion) in the first half of this year, an increase of 35.3 percent on the same period last year, according to He Xian, director of the Provincial Planning Commission.

Production of televisions, tape recorders, refrigerators, washing machines, electric fans, chemical fibers, beer, sugar, and cement has increased by 100 to 200 percent. He announced in a report to the standing committee of the provincial people's congress which closed on Saturday.

In the last seven months, the province exported \$1.76 billion worth of goods, an increase of 3.35 percent.

Foreign investment has grown to \$380 million, \$350 million of which has already been used. Individual savings deposits have risen by 3.31 billion yuan, but enterprises' deposits have dropped by 2.45 billion yuan.

However, he said the rapid increase in industrial production had placed an impossible burden on energy, raw material supplies and transport. Electricity, steel, iron, aluminum and sodium carbonate are in acutely short supply, he said.

Guangdong Province is now planning to control the growth of industrial production at a more reasonable level and invest more in power stations, highways and railways, he added.

CSO: 4020/345

PROVINCIAL AFFAIRS

HEBEI SECRETARY ON ENTERPRISES' ECONOMIC RESULTS

SK310145 Sheijiazhuang HEBEI RIBAO in Chinese 12 Aug 85 p 1

[Text] On 9 August, Xing Chongzhi, secretary of the provincial CPC Committee, attended a meeting of responsible comrades of the provincial-level departments of industry, communications, finance and trade, of the departments dealing with comprehensive work, and of the various commissions, offices, and bureaus. He made several suggestions on how to strengthen the vitality of enterprises and how to increase economic results. From 22 July to 1 August, Comrade Xing Chongzhi went to Shijiazhuang, Handan, and Xingtai Cities to investigate and conduct research in 16 enterprises. He directly heard the opinions of the grassroots leading comrades and realized that poor economic results are one of the prominent problems of our province's current economic work. He pointed out: It is necessary to concentrate efforts on studying and resolving this problem. Otherwise, reform cannot be considered as a success.

While analyzing the reasons for poor economic results, Comrade Xing Chongzhi pointed out: First, the level of reprocessing products is too low. Many products are semi-finished and are not finished products. The costs are high, consumptions are big, and profits are low. Second, the products are not readily marketable and their competitive abilities are poor. Many products are being stockpiled. Though there are many problems, we have great potentials. If we do a better job, we will achieve greater economic results.

In referring to future work, Comrade Xing Chongzhi pointed out: First, we should study ways to make large and medium-sized enterprise become more invigorating in accordance with the central decision on the reform of the economic structure and on the heels of the reform achievements in the past 2 years. We should deeply carry out the various reforms, bring the relations of enterprises into better balance, and do a better job in implementing the economic responsibility system. Some enterprises have failed to delegate due powers to workshops, work shifts, and groups. The administrative or technical offices have complicated structures. They have failed to establish lateral ties among them. Large and medium-sized enterprises are not as invigorating as collective small enterprises, because they are not easy to approach,

especially the state enterprises. Some enterprises want to change this, but departmental restrictions are so strict that their activities are restrained. Leaders should be more enlightened and should not set restrictions too rigid for the lower levels. Some units have demanded for the establishment of new organs and personnel increase when they want to do something. Such practice has become our common failures. Some units have asked the higher authorities to delegate powers, but they themselves are not willing to delegate powers to the lower levels. They have demanded for the centralization of power in the lower levels. All bureaus in these cities also have such defects.

Second, we should strengthen technical transformation. The level of reprocessing products is low. Many products of the major trades such as that of the textile, metallurgical, and chemical industries are semi-finished products. Therefore, we should change the product structure, raise the product reprocessing level, and develop finished products. Many enterprises still use outdated equipment and adopt backward techniques and their products are outdated also. To change such situations, we should rely on technical progress and firmly carry out technical transformation. We should place technical transformation on a prominent place and consider the technical transformation, and the reconstruction and expansion projects of the existing enterprises as an important aspect of work in the Seventh 5-year plan period.

Third, we should strengthen enterprise management and raise the management level. In general, our management level is still fairly backward. At present, many enterprises have implemented the contract system. However, contracts cannot replace modern management. Many of our managerial methods follow those of the 1950's, which regard production as the central task. These methods cannot meet the needs of the present economic development which mainly pays attention to operation and development. Enterprises should regularly carry out activities to analyze the economic situation, and be good at not only comparing their present situations with their past situations but also comparing their present situations with the advanced levels of other plants, provinces, cities, and foreign countries. In addition, they should also specifically analyze all economic targets, cater their work to their own needs, and tap their own potential. At present, many leading cadres of enterprises are elected from the ranks of technical personnel and they know very little about management. I suggest efforts be made this year and next to devote to training all plant directors and managers of enterprises at the various levels in the province in order to improve their basic managerial knowledge.

Fourth, we should pay attention to displaying the role of scientific and technical personnel of enterprises. How should we better establish the scientific and technological structure of enterprises and how should we use scientific and technical personnel? These two issues must be studied. Many engineers and technical personnel have not fully displayed their roles. This requires us to exert our efforts to do much research

work and to conscientiously resolve this problem. At present, the limited number of technical personnel of a considerable number of enterprises are dealing with the current production, leaving no person to take charge of technical transformation, the trial-manufacturing, and development of new products, technical reserves, and other work involving the reserve strength of enterprises. This is disadvantageous to the development of enterprises. We should concentrate a fairly great technical force on the trial manufacturing of new products in order to produce new products every year.

In conclusion, Comrade Xing Chongzhi called on the various provincial-level departments to improve their ideology and workstyle, and provide good services for their subordinate units. He said: The issue of how to make the provincial-level departments serve the lower levels has not been resolved yet. Comrades of the lower levels have demanded us to help them solve problems in a timely manner. We should provide good services for them. We should hold fewer routine meetings, devote more time to visiting enterprises, issue fewer general calls, devote more time to helping the lower levels solve practical problems, monopolize fewer things, and set up fewer restrictions and give more support to the lower levels. We should visit our subordinate enterprises to hear their opinions, and try all possible means to help them solve soluble problems.

CSO: 4006/902

PROVINCIAL AFFAIRS

HEILONGJIANG GOVERNOR'S REPORT ON ECONOMIC REFORM

SK300443 Harbin HEILONGJIANG RIBAO in Chinese 4 Aug 85 p 2

["Excerpts" of Governor Hou Jie's report: "Fully displaying the multiple functional roles of cities and advance the reform of the economic structure" at the provincial economic structural reform work conference on 26 July]

[Text] Comrades:

This provincial work conference on the economic structural reform is an important meeting held in the first year when the people are implementing the decision of the 3d plenary session of the 12th CPC Central Committee. In accordance with the opinions discussed at the Standing Committee of the provincial government, I now touch on the following three issues:

1. On the Issue of the Current Reform Situation

Correctly understanding the situation is the fundamental starting point of all our work as well as the basic basis for accurately implementing policies. In general, our province's reform situation is good. The main indications are:

1) The guiding ideology of reform is getting more and more correct and the orientation and emphasis of reform are becoming more and more clear. All localities have acted in accordance with the central decision and strategic principle of the provincial CPC Committee on "reforming the systems, carrying out technical transformation, opening the province to other localities and to the foreign countries, and making the country and the people prosperous," persisted in proceeding from the reality while doing everything, defined their own strategic goals of economic development clarified their own reform directions, and formulated specific reform measures.

2) The ongoing reform is being deepened and the path of reform is being broadened. We have explored some ways for invigorating enterprises, made new progress in the reform of the circulation system, achieved fairly good success in the reform of the communication and transport sectors, and made new achievements in reforming the building industry.

3) The newly initiated reforms are being smoothly carried out and initial success has been made. In accordance with the arrangements of the state, we have reformed the prices of grain, live hogs, and vegetables. In addition, we have readjusted the charges of short-distance railway passenger and freight transports as well as the prices of coal and some raw materials. After the initiation of these reforms, their situations have been good in general. After easing the pricing restrictions of hogs in particular the number of livestock in stock has universally increased. The markets have been fairly stable and the urban and rural fairs have been brisk. Preparations for the wage reform of state organs and establishments are being firmly carried out and the wage reform of the state enterprises are being vigorously carried out on a trial basis.

4) We have strengthened macroeconomic control and management. Since the beginning of this year, we have strengthened macroeconomic control and management in line with the demands of the central authorities and in the light of the new situations and problems emerged in the course of reform. Some phenomena which were out of control in our economic activities have been turned for the better.

5) The various reforms have become to support mutually and have developed coordinately. First, we have made the urban and rural reforms support each other. Second, the reforms of the departments in charge of comprehensive work and of the various trades and profession have become more coordinated. Third, the reforms of the economic structure and the scientific, technological, and educational structures have become more coordinated.

The reform of the economic structure has stimulated the development of production and enabled the national economy to witness a new situation of sustained, steady, and coordinated development. Last year was the first year in which our province comprehensively carried out reform as well as a year in which we saw an all-round increase in the national economy and obvious improvement in economic results. Since the beginning of this year, the national economy has continued to maintain an upward trend of steady growth. Under the situation in which our agricultural production has suffered from such natural disasters as spring drought, the situations of the growth of farm crops in many localities are still good. In industrial production, in the first half of the year, the output value, the sales income, and the profits and taxes of the provincial state industrial enterprises that are covered by the state budget increased simultaneously, showing increases of 12.4 percent, 13.9 percent, and 23.9 percent respectively over the same period of last year. The number of money-losing enterprises decreased, and the amount of deficits dropped by one-third from the same period of last year. The retail sales of commodities increased by 21.3 percent over the same period of last year. The total financial revenue rose by 14.4 percent over the corresponding period of last year. The total procurement volume of export commodities of the foreign trade

increased by 24.9 percent over the same period last year. New progress was also made in the development of the scientific, technological, educational, cultural, and public health undertakings.

Practice of our province's economic reform proves that the reform policies set forth by the CPC Central Committee are totally correct. Of course, there are also problems on our road of reform. Major ones are as follows: The relaxation of control and enlivening of the micro-economy are not sufficiently coordinated with macroeconomic control and management. The acts of some localities, departments, and enterprises were divorced from the demand for considering the overall and long-term interest of society, and struck the basic balance in the state's finance, credit, supplies, and foreign exchange. With regard to the loss of control in some macroeconomic fields and a few new malpractices emerging since the last quarter of last year, we have adopted measures to stop and correct them, but the tasks for preventing price hikes and avoiding loss of control over the macroeconomy remain arduous. Although these problems emerged in our endeavor to carry out reform, we should never attribute them to the reform, but should solve them through reform. The measure for enlivening the microeconomy is reform, and the macroeconomic control and management compatible with the measure is also reform. The purpose of both is to make the country prosper and the people rich and happy. Our leading comrades at various levels should never lower their guard because of the good situation of reform, nor should they hesitate to move forward because of the difficulties or some temporary problems they face on their way of advance. They should remain clear-headed and adopt feasible measures to solve the problems in reform in a timely manner, do the work in various fields well, and further consolidate and develop the excellent situation.

2. On the Issue of Performing the Multipurpose Functions of Cities

Not long ago, Premier Zhao Ziyang pointed out: "Now urban reform has become the key link of the overall economic reform. Only when we grasp this key link can we bring along the chain of the overall reform which includes rural reform." His remarks highly epitomized the practice and experiences of reform, and expounded the position and functions of the urban reform in the overall reform. Whether the overall reform can be a success is decided to a great extent by the full performance of the multipurpose functions of cities.

Because there are many problems to be solved and many tasks to be fulfilled, urban reform is complicated. The reforms in various fields are interrelated and mutually influential. We should differentiate what is primary from what is secondary and grasp the major points. Judging from the current situation, we should focus on developing commodity production and improving economic results when carrying out urban reform. We should both further relax the control of and enliven the microeconomy and strengthen macroeconomic control and management.

1) We should continue the work of simplifying government administration and delegating power to lower levels and further invigorate enterprises. Invigorating enterprises is the starting and ending point of the reform of the economic structure focusing on the urban economy. Measures should be taken in and outside the enterprises continuously in order to invigorate enterprises, particularly large and medium-sized large ones. With regard to the measures to be taken outside enterprises, based on the situation of the province, an important work is to continue simplifying government administration and delegating power to lower levels. In doing this work this year, we should emphasize the consolidation of administrative companies of various categories at various levels in addition to giving enterprises the powers that the central authorities and the province are to give them. In the meantime, city governments should do a good job in the reform of the managerial organizations at higher levels. The reform should be conducted step by step by changing the functions first and changing the organizations later.

In vitalizing large and medium-sized enterprises, the key lies in successfully carrying out reforms in all fields of enterprises, in addition to improving the external conditions. First, we should further perfect the system of having plant directors (managers) undertake responsibility, promote the "able persons" with professional knowledge, managerial ability, and the courage to blaze new trails to the post of plant directors, and establish a center for making policy decisions composed of chief engineers, chief economists, chief accountants, and specialists in various fields, with the plant directors as the head. Second, we should expand the various forms in the economic responsibility system. In the course of mobilizing the initiative of enterprises' workers and staff members, we should give full play to the initiative of managers of enterprises.

Third, we should reform the internal management system of enterprises. Fourth, we should vigorously promote technical progress, pay attention to technical transformation, actually strengthen the comprehensive management of quality, energetically improve the quality of products, resolutely prevent those inferior, subquality, and fake commodities from going out of the plants, and constantly enhance the ability to conduct self-renovation and self-development. Fifth, we should develop diversified undertakings focusing on one specialized operation. Through these reforms, we should give full play to the initiative and creativeness of workers and staff members, promote the development of productivity and lay a solid foundation for urban reform.

2) We should develop lateral economic cooperations, and establish many three-type economic groups. We must break with the closed-style economy which forms a system independently, and gradually establish an open-style economy. Cities should have not only the actual strength to "support others", but also the courage to "open wide their doors." Cities should boldly import products, technologies, talents, and

managerial experiences from other places in order to test their own enterprises in the high-level competitions. Meanwhile, cities should strive to organize combinations and cooperations spanning professions, and districts and breaking the demarcation line between urban and rural areas and between different forms of ownership, and should gradually form some organic groups with big cities as the three trunks, with medium-sized and small cities (towns) as the branches, and with enterprises as the leaves. We should vigorously organize lateral cooperations among enterprises, and advocate the reorganization, integration, and specialized cooperations among enterprises, with the key enterprises as the supporter and with the top-brand and high-quality products as the "leader." We should form many new group enterprises with economic means. We should vigorously develop the integrations and cooperations between different cities (towns), and encourage cities (towns) inside and outside the province to join efforts to develop production, exploit natural resources, and run businesses. We should also organize the industrial-commercial integrations, the industrial-trade integrations, and the technical-trade integration and form a number of new city groups. We should vigorously develop the economic associations between urban and rural areas, combine urban areas with rural areas, and combine industry with agriculture so that both the urban and rural areas will become prosperous under the principle of equality and mutual benefit.

In the course of opening the province to internal cooperations, we should be bold in developing economic and technical cooperations with foreign countries. We should expeditiously grasp the information of the international economic situation, expand the volume of foreign trade and export, and encourage enterprises to export more commodities and earn more foreign exchanges. At the same time, we should provide preferential conditions to attract still more foreign traders to our province to run enterprises exclusively or with joint investments, and should expand the scale of economic and technical interchanges and cooperations with foreign countries.

3) We should open wide the doors of cities and open up markets of various categories. We should further break with the barriers between different departments and regions, and gradually establish open and unified socialist markets instead of closed and divided ones. First, we should strive to open up consumer goods. We should continue to run well the various consumer goods trade centers and wholesale markets, set up commercial streets of various types in line with actual conditions, encourage enterprises of other localities and peasants to open commercial units in cities, and exercise direct deals between producers and sellers. Second, we should vigorously establish markets of means of production. We should do away with the outdated idea that the means of production are not commodities, and allow enterprises to sell by themselves some of the means of production or those not covered by mandatory plans in markets. Third, we should establish technology markets. We should launch large-scale activities

of technical services, technological transfer, technological consultations, technological contracts, and of buying shares with technology, and gradually establish throughout the province a technological trading network with unimpeded channels so that the advantage of technology in cities can be fully developed. Fourth, we should open money markets. We should gradually establish a crisscross monetary network of multiple credit forms and multiple channels of raising funds with bank credit as the main, and properly handle the issue of the lateral circulation of funds to different regions, departments, and trades. Localities and enterprises are permitted to issue bonds and stocks within a certain scope controlled by bank credit plans. This way, funds can be used in where they are needed and can yield better macroeconomic results. Fifth, we should open up labor service markets. We should organize the surplus personnel of enterprises, idle persons of society, city and town job-awaiting persons, and rural surplus laborers to provide services to the labor exchanges of the cities themselves and of different areas. We should explore a new way for the rational flow of laborers.

We should invigorate transportation if we are to open wide the doors of cities and enliven circulation. We should regard the reform of the communications and transportation systems as a strategic task and carry it out well.

4) We should accelerate the infrastructure of cities in order to increase their ability of rendering multipurpose services. We should use our limited funds in building the infrastructure and developing the tertiary industry, improve the city's environment of investment and increase its ability to serve its own economic areas. Enterprises should be encouraged to make use of their advantage in personnel, technology, and management to provide information and technological consulting services. Trades, departments and localities should also be encouraged to develop the tertiary industry by raising funds to buy stocks or in a form of joint ventures. We should open up fund-raising channels for urban construction, absorb funds from many sources to expedite construction of urban public facilities and experiment with the work of making houses commodities so that we can expand the scope of service of cities and accelerate the operation of the economy of society.

5) We should use economic levers for various purposes and strengthen macroeconomic control and management. In order to strengthen macroeconomic control and management, it is necessary to correctly understand and properly handle the relationship between economic levers and state plans, between economic levers and other regulatory means, and between the overall coordination of the relations among various economic levers and the application of economic levers and structural reform. In carrying out urban reform and economic work, we should regard price reform as a key task and grasp it well. In line with the principle of both straightening our prices and avoiding large fluctuations, we should focus our efforts on stabilizing the prices of major

nonstaple foods, manufactured goods, and the means of production. We should strengthen the control over and guidance to the sales of production in which enterprises will sell by themselves after receiving permission, and relax the control over and enliven the commodity sales whose prices enterprises have the authority to set and the farm and sideline productions regulated by markets. Reform of the wages system of enterprises should also be carried out successfully when we reform the wage system of state organs and institutions. Painstaking and meticulous work should be done in the wage reform of enterprises.

The State Council has already relaxed the starting point of the collection of above-norm bonus taxes to the standard wage of 4 months. We should make the best use of this favorable condition and give different guidance according to different situations. All in all, price and wage reforms and "three controls" are important issues in which we should win a victory during the first battle this year. All localities and departments should work in close coordination and cooperation to ensure the smooth progress of the overall reform.

3. On the Issue of Strengthening Leadership Over Reform

It is necessary to strengthen party and government leadership over reform if we are to promote it in all fields. We are now in a period in which the old system is being changed into a new one. We have begun to make a breakthrough in the longstanding rigid and close structure of the economy, and to bring economic construction to a track compatible with objective demands. However, reform is extremely complicated, and there are still many issues and difficulties to be solved, explored, and created on our road of advance. Our leading persons at various levels in facing the tasks should remain clear-headed, bear the overall situation in mind, do more concrete work, give less empty talk, implement the principles and policies of reform, and turn the blueprint, principles and policies of reform into real things through practice and into a great impetus promoting economic work.

1. We should further correct the ideology guiding the reform and firmly grasp the orientation of reform. The deeper the reform is developed, the more we should eliminate the "leftist" and outdated things, emancipate our minds, and adhere to the socialist orientation. Our problems are manifested in three fields. First, some comrades have not eliminated their "leftist" and old ideas and concepts and the force of habit. Whenever problems arise, they are used to following the beaten track. When we stress macroeconomic control, they would take this opportunity to regain their power, and when we stress professional and trade control, they would take this opportunity to recall the power they have delegated to enterprises. Second, some comrades take advantage of reform to seek selfish gains at the expense of the interest of the state, the collective, and the individual. Third, some comrades lack confidence in reform, being hesitant and undetermined. It is precisely because

of this that some erroneous methods cannot be resisted and corrected in a timely manner. We should make clear that every reform step and measure should be worked out on the premise of safeguarding the interest of the state and the people, should be conducive to the fulfillment of the tasks stipulated by the state, to the sustained, steady, and coordinated development of the national economy, to the achievement of higher social and economic effectiveness by various economic activities and to the interest of the state, the collective, and the individual, and should guarantee the rational increase of the state revenue every year. These basic principles are the fundamental prerequisites for us to correct the guiding ideology for reform and to adhere to the correct orientation of reform. Therefore, CPC Committees, governments, and cadres at various levels should thoroughly understand the nature, purpose, tasks, principles, and policies of reform, conscientiously sum up the experiences and lessons in reform, eliminate various ideological obstacles, further steel their confidence in reform, unify the ideas of cadres and the masses of people in line with the CPC Central Committee's "Decision," and promote the reform in a down-to-earth manner along the socialist orientation.

2. We should persistently proceed from reality, not strive for speed, but attend to achieving good results in the reform. The current economic situation is very good. All trades and professions have made fast progress. These resulted from carrying out reform, opening to the outside world, and enlivening domestic economy; as well as favorable conditions in further conducting reforms. At the same time, we should see the other side of the problems, such as only seeking high targets and fast speed. Fundamentally speaking, the current measures adopted by the central authority and the State Council for controlling the scale of capital construction, credits, consumption funds, and foreign exchange management are to control the excessive expansion of the social demands, to alleviate the excessive growth rate, and to create a flexible economic environment with reserve strength. Leading comrades at all levels must take the whole situation into consideration to handle well the relations between reform and construction speed. At present, some leading comrades have concentrated most of their energy and time on conducting projects and striving for speed instead of reforming the rigid systems. In assigning work to lower levels, they have only stressed on attaining a certain speed and target and not on conducting overall reforms. We must change these practices. We should penetrate the work of conducting reforms, opening to the outside world, enlivening the domestic economy into the entire course of the economic work; make efforts to upgrade the overall economic results; and ceaselessly enhance our economic strength.

3. We should utter less idle talk, do more solid work, and firmly attend to implementing the decision on reforms. So far, the CPC Central Committee, the State Council, the provincial CPC Committee, and the provincial government have formulated definite reform regulations. However, we have failed to well implement these regulations. Problems

concerning paying lip service and conducting formalism exist in varying degrees. In accordance with the demands for reforms set forth by the central authority, the State Council, the provincial CPC Committee, and the provincial government, party committees and governments at all levels should conscientiously examine the reform work of various localities and departments; investigate, study, and dissect various types of exemplary experience sum up advanced experiences; timely draw a clear demarcation line between policies; and properly solve various problems in the course of advance in order to make the reform work forge ahead in a solid manner.

4. We should strengthen the ideological and political work to ensure a smooth development of the reform. A tendency which merits our attention is that we neglect the ideological and political work in the course of conducting reforms, opening to the outside world, and enlivening the domestic economy. Some localities, departments, enterprises, staff members, workers, and people fail to correctly handle the relations between the whole and the part, between the interests of the state, the collectives, and the individuals, and between persisting in reforms and abiding by party discipline and state law. This is the key source creating new unhealthy practices. Cadres should foster an idea of taking the whole situation into consideration, profoundly conduct the education on patriotism and communist ideals, continue to carry forward the fine traditions of party members and cadres being the first to bear hardship and the last to enjoy comforts, and take the lead to educate the broad masses of the people to create a fine practice of being united to conduct the reform. We should enthusiastically educate the cadres to consciously resist unhealthy practices.

5. We should enhance the study of theory of the economic restructure, and CPC Committees and governments should generally enhance the leadership over the reform. In accordance with actual conditions, all localities should work out plans for reform targets, including targets for the overall reform and the various phases of reform in order to conduct the reform in planned and step-by-step manners and to ceaselessly and deeply promote the overall reform.

CSO: 4006/902

PROVINCIAL AFFAIRS

SHANDONG'S MEASURES HELP POOR MOUNTAINOUS AREAS

SK200615 Jinan Shandong Provincial Service in Mandarin 2300 GMT 15 Aug 85

[Text] Li Changan, governor of the province, has gone deep into the Yimeng mountainous areas to carry out investigation and studies among the fishery villages around the reservoirs and the poor mountainous farm households. He found that the people's governments at provincial, prefectural, county, and township levels had made rapid progress in helping the poor through assisting the masses to deal with their difficulties in a down-to-earth manner and had scored great achievements in this regard.

Linyi Prefecture had very poor natural conditions in the past, such as barren mountains and unruly rivers. Since 1958, the party and the government have built 46 large- and middle-sized reservoirs in the prefecture and improved the mountainous areas' production conditions by expanding the acreage of farmland through irrigated reservoir water to 1.64 million mu. At that time, a large number of villages were built around the construction sites of the reservoirs and 440,000 people moved into the villages, settling down at the barren ridges of the mountains by following the overall arrangement of the government, lived in make-shift shacks, and shared several fen of land. Over the past 20 years, they have continued experiencing difficulties in both production and livelihood.

In July, Li Changan, governor of the province, and responsible comrades of the 20 provincial level departments went to the areas to investigate the situation. During their trip, they said with emotion that, as government staffers, they should be ashamed for not finding production avenues for these people and not creating elementary livelihood conditions for them, though these people had abandoned their own houses and farmland in order to move into these areas. Under the new situation in conducting reforms, how to enable our work to serve the grassroots-level units represents the important yardstick in measuring our work achievements. Through their investigation and studies, Li Changan, governor of the province, and responsible comrades have enhanced their sense of responsibility and emergency in giving a helping hand to the reservoir areas and poor remote villages. During their trip, they adopted the following decisions:

1. From this year on, the Provincial People's Bank and the Provincial Agricultural Bank will release additional low interest loans to these areas yearly.

2. From 1986 on, we will appropriate a part of funds from the provincial investment in water conservancy projects and the provincial water conservancy expenditures for the upcoming 3 years in order to help these areas.
3. The reservoir administration departments should organize the people in the reservoir areas to engage in fishery in order to increase their incomes.
4. In employing labor forces in managing or maintaining the reservoirs, it is necessary to give priority in employment to the people in the reservoir areas in order to help them open more production channels.
5. We should appropriate a part of funds earned by the reservoirs in order to help the fishery people in their areas.

At present, the provincial-level departments concerned have also adopted measures for carrying out these tasks. The provincial banks have appropriated 4 million yuan of loans for these reservoir areas. The provincial power departments have decided to extend a high-voltage cable to the reservoir areas and the fishing villages. The foreign trade departments have dispatched their work groups to help the 14 fishing villages open production channels. The provincial supply and marketing cooperative has urged the grassroots-level units to give a helping hand to the poor villages. The reservoir units that have had incomes have also gone to their neighboring fishing villages to help them in the fields of technology, production avenues, funds, and urgent assistance.

Our station editor noted this news item, and stated: Efforts should be made to stop empty talks and to do much practical work. At present, what we should stress is that our cadres should often go to the areas which are poor and which have more difficulties. The reason we stress this is because some localities have not resolutely dealt with the questions concerning dressing warmly and eating their fill and some cadres have actually thought of fearing hardship and dodging contradictions. As a result, the poor areas have accumulated more and more difficulties which cannot be solved quickly, because these cadres have had a vague notion about the situation, had no deep impression of the policy's spirit, and have been weak in the sense of responsibility and emergency in improving the backward situation in these areas.

The party's policies are aimed at enabling the people to become wealthy. Over the past years, we have implemented these policies in order to enable the people in a number of localities to begin their ways of getting rich. From now on, we will certainly be able to enable these poor areas to change their appearance by continuously implementing these policies. However, to this end, we should improve our workstyle among the leading personnel in a down-to-earth manner, carry out investigation and studies realistically, and should conduct our work arduously and painstakingly.

CSO: 4006/887

ECONOMIC PLANNING

RENMIN RIBAO ON MONGOLIA FULFILLING ECONOMIC PLAN

HK220912 Beijing RENMIN RIBAO in Chinese 17 Aug 85 p 7

[Report: "Mongolia Basically Fulfilled Its Economic Plan for the First Half of This Year"]

[Text] According to a report by UNEN of Mongolia, the Mongolian Council of Ministers held a meeting the other day to discuss conditions in the execution of the plans for the development of the national economy and culture in the first half of 1985 and the results concerning the overall state budget.

It was reported that the plans for the first half of this year were basically fulfilled smoothly. Compared with the first half of last year, the rate of loss of adult and young animals was reduced; there were 840 aided animal births.

Industrial departments' plans for output value and sales were overfulfilled 4.7 percent. The plan for finished projects and for construction and installation work was fulfilled. Basic targets for planned tasks of the transportation, posts and telecommunications, commercial, service, education, and sanitation departments were successfully achieved. The plan for estimated state income was overfulfilled.

It was reported that the Council of Ministers instructed relevant units to take measures to enable the number of animals owned by residents to increase to such an extent as prescribed by the law or the relevant regulations. In the capitals of all provinces and the centers of all counties, a free food market is to be set up. Every properly placed household or citizen should be able to have sideline occupations.

While maintaining and consolidating the concentrated management of the national economy and enlarging general powers and decisionmaking powers of departments, areas, and enterprises, various ministries and commissions must protect the decisionmaking powers of the enterprises under them. They must make proper preparations in advance for the restructuring of wholesale prices and organize such work in line with high quality requirements.

CSO: 4006/887

ECONOMIC MANAGEMENT

SYMPOSIUM ON MACROECONOMIC MANAGEMENT BEGINS

OW021104 Beijing XINHUA in English 0812 GMT 2 Sep 85

[Text] Chongqing, 2 Sep (XINHUA)--China is determined to further reform its economic structure following "remarkable success" in the past few years, noted Chinese economist Xue Muqiao told an international symposium which opened here today.

Xue told economists from Hungary, Yugoslavia, the Federal Republic of Germany, Britain, the United States and France that though China has had difficulties in its reforms, and has to constantly control imbalances, it will not retrogress.

"Once reform succeeds, there will appear in the world a socialist country full of vitality. This will be of tremendous significance to us and will exert profound influence in the world as well", said the eighty-one-year-old economist. Xue also is honorary president of the research center to advise on economic, technological and social development under the state council.

The symposium is sponsored by the China economic system reform institute, the Chinese academy of social sciences and the World Bank.

Among the foreign participants are experts of economic reforms in the Soviet Union and east European countries, scholars of western economy and researchers of third world economy. Chinese participants include influential economists and experts on China's economic reforms and senior government officials.

During the six-day symposium, foreign participants will swell on theory and experiences of macroeconomic management in their countries. They will also make comments and suggestions on China's economic reforms. Participants will discuss topics including planning and marketing, taxation and other financial approaches.

China first began its economic reform in rural areas six years ago, concentrating on a contracted responsibility system for production with remuneration linked to output. Beginning this year, reform has also been started in urban areas, concentrating on invigorating enterprises and price and wage reforms.

CSO: 4020/345

ECONOMIC MANAGEMENT

INPUT-OUTPUT TECHNIQUES RECOMMENDED FOR MAKING ANNUAL PLANS

Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 5, 5 May 85 pp 9-11

[Article by Gao Nansen [7559 2809 2773] of the planning department of the Anshan Iron and Steel Co: "On Applying the Input-Output Technique"]

[Text] The input-output technique, a modern management method, can be applied not only to economic management but also to the planned management of enterprises. With it, the complicated production, technical and economic relations of different departments within an enterprise may be visually and quantitatively reflected on a table--an input-output table. It serves as an effective tool for solving many complicated problems in the production and management of enterprises, analyzing the economic activities of enterprises and formulating plans with overall balance.

The key to the successful application of the input-output technique lies in the feasibility of the input-output matrix. By feasibility, we mean that the input-output matrix we formulate should be practical, feasible and able to satisfy the requirements of planning. These requirements are as follows:

1. It should be an optimized plan whose economic results are the best.
2. It should be balanced comprehensively. It should satisfy the demands both of state command plans and of the market. It should fully utilize various productive resources and fully tap the potential of all plants. It should closely coordinate plans for production, supply and marketing departments, people, funds, materials, major plants and mines and auxiliary departments, and then organize production accordingly in a rhythmical and harmonious manner.
3. It should reflect the general fighting goal of a company's annual plan as well as targets assigned to various plants and departments and the requirements of the economic responsibility system for the examination of various targets.
4. It should have the capacity of adjusting to changes in markets, energy conditions, and prices so that plans can be recalculated and readjusted at any time.

5. It should satisfy the requirements of planning procedures and keep the plans of supplies and spare parts departments in line with state procurement meetings.

In other words, it is necessary to do a good job in the coordination of the following areas: 1) Coordination with principle and target control; 2) coordination with the examination of economic responsibility systems; 3) coordination with various special plans and statistical reports; 4) coordination with a company's long- and short-term plans; 5) coordination between the company and its plants and mines, between different plants and mines, and between plants and mines and specialized departments; and 6) coordination with the application of other modernized management methods.

Judged by its nature and characteristics, the input-output table can meet all these requirements, because it can include all departments and products of an enterprise and fully reflect the internal production and management activities as well as the external market and supply relations of an enterprise. The key to this issue is how to accurately reflect the quantitative relations among these objective things. Because of this, we have summed up our experiences and problems encountered in compiling four previous tables. When we drew up the input-out table for 1983 with the planning table as the main content, we focused our energies on accuracy and practicality. We focused our work on the following few links:

A. Focusing on preparation: This is a base for the smooth collection of data and formulation of input-output tables. A good job in preparatory work can save manpower and energy. Mistakes can turn the whole thing into a disaster. From December 1983 to February 1984, we used nearly 2 months to design columns and lines for input-output tables, design the transitional tables of data collection, prepare outlines of training, write guidelines for the formulation of tables and work requirements, print report forms, and so on.

When designing the columns and lines of input-output tables we called statistical, planning, financial, accounting and other personnel concerned to conduct repeated discussions and studies to satisfy the requirements of planning work and make it easier to collect, process and sort data. We gave special consideration to two points: One was establishing a complete target system by combining departments with products and company targets with the targets of secondary plants; the other was classifying products in every possible detail. Steelmaking was classified into not only different departments but also different models of furnaces and types of steel.

Designing a good transitional table is another important link. One of the functions of a transitional table is to gather the original data of each plant according to the requirements of columns and lines and reduce difficulties in formulating the main table. Another function is to make it easier to check on grassroots units in the future.

Doing a good job in designing guidelines for the formulation of tables: In order for data entry personnel to enter data accurately, unifying the procedures for data entry is also an indispensable link.

B. Data collection and processing: Beginning March 1984, we organized for training over 300 statistical and managerial personnel of the planning, statistical, financial, supply, marketing and other relevant sectors in over 30 plants and departments. During the training, personnel in charge of formulating tables introduced the fundamentals of the input-output technique, guidelines for the formulation of tables, work requirements, and points for attention. Through the training, the statistical and managerial personnel enhanced their understanding of this work, solved some problems which had arisen in collecting data, and substantially accelerated the speed of data collection and processing. In less than 1 month, most plants and mines had already fulfilled the task of processing the transitional tables which contained over 10,000 pieces of data.

C. Vertical and horizontal balancing of data and formulation of tables: This work is to be done by a special input-output group consisting of 10 high- or intermediate-level specialists in systems engineering, smelting, steel rolling, enterprise management, financial accounting and computers, transferred from the technical and economic sections of planning and financial accounting departments and economic research and designing institutes. Their major tasks are to check and verify every piece of data for every plant and unify it with that on the annual report, transfer data from transitional tables to main input-output tables, conduct vertical and horizontal balancing, and finally work out an input-output table for material objects and value.

Checking and verifying every piece of data is an arduous task, but it is extremely necessary. Only when every piece of data is correct can the accuracy and practicality of the input-output table be guaranteed. This is a meticulous and highly demanding job that requires much hard work. We used 3 months to complete the table for material objects and 5 months to complete the table of value. Each table contained approximately 12,000 pieces of data.

Doing a good job in the individual balance of each column and line before compiling an input-output table is the foundation for doing a good job in the overall balance of the main table. There are several dozen kinds of individual balance, including the balance of intermediate products such as semi-finished products of iron and steel and refractory materials, the balance of various energy resources such as electricity and gas, the balance of major raw and processed materials and the balance of recovered iron and steel. Through the process of balancing, not only can we discover whether data are correct, we can also discover problems in production, operation and management and work out solutions.

The following problems must also be solved when compiling reports:

1. The problem of inconsistency in the requirements of existing statistical and production cost reports and input-output tables. Because products are classified in greater detail in our columns and lines than in existing statistical and production cost reports, the two do not match, forcing us to reprocess all existing reports. This was our biggest headache in the process of formulating the input-output table.

2. The problem of variation in the computation of production cost. Because the computation method of production cost reports varies in every plant, we had to reprocess all reports in a unified manner before compiling them into the table.

3. The problem of handling recovered waste materials. We designed a column of negative input in the input-output table for the entry of recovered products (such as scrap steel) and secondary energy resources (such as blast and coke furnace gas and steam). We did not enter them in the output column of transferred supply processing plants (such as gas and scrap steel plants) in order to avoid confusion.

4. The problem of restoring internal profits. Because state transfer prices are used for computing profits of all plants and transferring products between different plants of the company, the product costs of all plants are not the real costs of the company's products. They need to be restored to actual costs by deducting the internal profits of all plants. At present, this work is being done by the company's financial accounting department with much manpower but inaccurate results. This time, we used a complete consumption coefficient and mathematical methods to create a "cost restoration matrix" and resolved this problem satisfactorily.

5. The problem of handling the cost profits of functional offices and departments which have been assigned profit targets. Purchased goods and materials consumed in the production of all plants are all purchased by the raw material and fuel office, the supply office and the equipment office and then supplied to all plants at the company's internal planning prices. Internal profits will accrue after deducting the purchase costs of the three offices. We entered the three offices in the table as a production department, computed purchase costs and internal profits and adjusted the costs of products concerned in accordance with the variety of goods and materials.

Only after the above problems are solved can we formulate an input-output table with real costs and profits for the company. However, in order to implement the economic responsibility system and examine the costs and profits of all plants, we must also keep the tables of material objects and value which have not gone through "cost restoration." Therefore, we need to have two sets of tables of material objects and value. They are both useful.

D. Using reports in formulating the 1985 plan: Every piece of data for 1983 was carefully verified. The output of six major products (sintered ore, iron, steel, adobe, lumber and coke) and the total consumption of seven major energy resources (natural gas, heavy oil, electricity, dressed coal, power coal, anthracite and self-generated electricity) in the 1983 input-output table are basically the same as those in the annual report with a tolerance of less than 0.05 percent. But, the 1983 annual report cannot be used directly in the formulation of the 1985 plan. The main reason is that in 1985 changes have occurred in the internal production lineup and technical and managerial conditions of the company. There have also been changes in various external factors of the company which directly affect the consumption coefficient. These factors are:

1. Changes in product mix caused by market demand.
2. Changes in the technical, technological and economic targets of different departments caused by the adoption of new technology and the improvement of management standards.
3. Changes in consumption caused by changes in the variety and quality of raw materials and fuel.
4. Changes in costs and profits caused by prices.
5. Changes in production and consumption caused by the operation targets set by the company.

Considering the effects of the above five factors, we must readjust the direct consumption coefficient of all plants accordingly. After readjusting the direct consumption coefficient, we should use the method of linear programming to optimize production and the output of final products for 1985 in accordance with the supply-demand situation market forecast, the restrictions of raw material, fuel, processed material and other resource conditions, the limitation of production capacity, and the operational targets of the company. The optimized output plan is still not a final plan. It must be readjusted according to the commodity and transfer volume determined at the state procurement meeting. Only then can we come up with the output and commodity volume of a planned year. After output and commodity volume are determined, we can use an input-output planning matrix to determine the balance sheet of various goods and materials, energy resources and power and the output and consumption targets of all plants and print them out for the company's leaders to use as a reference in making policy decisions.

With effort, the plan we formulated for 1985 fairly well satisfies the struggle goals set forth by the company for 1985--10 percent increase in profits, 1 percent increase in finished product rate and 3 percent decline in energy consumption, as compared to 1984. The newly designed 1985 planning matrix is basically feasible because the difference between the accuracy of the material object indexes and the results of manual computation is less than 0.1 percent. Therefore, this is a promising step for using input-output tables in formulating annual plans.

12302

CSO: 4006/799

ECONOMIC MANAGEMENT

SHAANXI MEETING ON MONITORING COMPANIES RUN BY INSTITUTIONS

HK190626 Xian Shaanxi Provincial Service in Mandarin 0500 GMT 14 Aug 85

[Text] The provincial CPC committee and the provincial government jointly convened yesterday a meeting for responsible persons of institutions at and above the county level, as well as departments concerned, in Xian District. The meeting worked out plans for checking on and straightening out companies. Vice Governor Lin Jizhou presided over the meeting, while Mou Lingsheng, deputy secretary of the provincial CPC committee, made a speech.

Mou Lingsheng proposed specific suggestions on the scope of running enterprises by the education, science, technology, culture, arts, publication, public health, news, radio, television, and sports institutions. Furthermore, he stressed: All enterprises run by the institutions must be examined and approved by the government and departments concerned at and above the county level. The management of the enterprises should be separated from that of the institutions in terms of manpower and financial and material resources. The institutions should gradually perfect the system of levying service charges and the system of distributing the income earned by their subordinate enterprises.

Mao Lingsheng said: The practice of running enterprises by institutions is a new thing in the reform. When we check on and straighten out the companies of institutions, we do not mean to ban these companies. Instead, we want to overcome the weak points of these companies and make them develop healthily. Any company which conforms to the policy should be consolidated. On the other hand, any company which does not conform to the policy should be improved and perfected. For the latter, we may revoke their licenses, or suspend their operations. In addition, we must resolutely ban those companies operating without a license.

CSO: 4006/887

ECONOMIC MANAGEMENT

HEBEI HOLDS MEETING ON DEVELOPMENT OF QINHUANGDAO

SK010457 Shijiazhuang HEBEI RIBAO in Chinese 16 Aug 85 p 1

[Text] On 15 August, the Provincial People's Government held an on-the-spot work conference at Beidaihe resort on developing the economy and technology in Qinhuangdao City. At the conference, Zhang Shuguang, governor of the province, delivered a speech, in which he pointed out: The departments and units throughout the province should unify their thinking, have unified organizations and leadership, centralize their forces, and make concerted efforts to accelerate the pace of developing the economy and technology in Qinhuangdao City, the province's window of trade with outside areas.

In his speech, Zhang Shuguang pointed out: Qinhuangdao City is one of the economic and technical development zones in the country and one of the 14 cities opening to the outside world, and is also the place in which our province has conducted pilot work in opening a city to the outside world. Therefore, the provincial-level departments and bureaus and the prefectures and cities should show concern for development in the building of Qinhuangdao City and regard the duty of developing the city as their own. All items that can be used by Qinhuangdao City should be carried out in the city. In line with the principle of exploiting strong points and avoiding shortcomings, benefiting each other voluntarily, conducting exchanges at same prices, and carrying out joint and harmonious development, the relevant commissions, offices, departments, and bureaus; the prefectures and cities; and the key enterprises should extensively conduct vertical and horizontal coordination by doing away with the demarcation line of the administrative zones in order to build Qinhuangdao City into a powerful "fist" of enforcing the economic and technical policy opening to the outside world; to better bring into play the linking role of the city in setting up economic cooperation with domestic areas and introducing advanced technology from foreign countries, as well as in setting examples in both exporting and importing; to bring into play the role of the city as a window in introducing outside knowledge, technology, and managerial knowledge; and to bring into play the city's role in enforcing the policy of opening to the outside world.

In his speech, Zhang Shuguang acknowledged the achievements scored by the city in enforcing the policy of opening to the outside world during the past year and analyzed the contradictions and problems that will emerge in the future. As Vice Premier Gu Mu pointed out during his recent inspection tour in the city, Qinhuangdao City has scored marked achievements in the work in this regard during the past year and made new progress as compared with work in 1984. In 1984, the city only made preparations or a start, in the work. On the basis of the experience gained through practice during 1984, and through enhancing understanding, the city may do a better job in conducting the work this year.

In his speech, Zhang Shuguang also gave his opinions on the issue of how to bring into play the city's three strong points--harbors, tourism, and the glass industry. He urged the participating comrades to pool their wisdom and efforts to offer ways and means to develop the economy and technology in the city.

Attending the conference were principal responsible comrades from the 25 commissions, offices, departments, and bureaus directly under the provincial People's Government and from six major cities--Handan, Xingtai, Shijiazhuang, Baoding, Zhangjiakou, and Tangshan.

CSO: 4006/902

ECONOMIC MANAGEMENT

HEILONGJIANG CIRCULAR ON REGISTRATION OF COMPANIES

SK200226 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 17 Aug 85

[Text] The provincial people's government recently transmitted the provincial industrial and commercial bureau's circular on the provincial provisional regulations concerning the management of registration of companies and enterprises, thus providing the province with legal basis for consolidating and sorting out companies and enterprises of various kinds.

The circular points out: To ensure the smooth development of the economic structure reform, we must strengthen the management of registering various companies, centers, department stores, shops, and warehouses in order to maintain the order of the socialist economy.

The circular stipulates: All the branches established by national companies in the province, all the companies dealing with import, export, and foreign trades, and all the commercial companies run by military units must register with the provincial industrial and commercial bureau, and licenses of such companies must be issued by the provincial industrial and commercial bureau. The remainder of companies should register with and obtain licenses from the local industrial and commercial bureaus. When applying for registrations, all companies must submit the certificates issued by the sponsoring units and responsible departments or financial departments to the industrial and commercial departments. When a company engages in those professions and trades covered by the special provisions of the state or of the provincial people's government, an approval certificate issued by the responsible department must be submitted to an industrial and commercial bureau. All integrated companies should also submit the agreements of all parties participating in the integration, contract letters, and copies of business licenses.

The circular also stipulates: The names of various companies must correspond to the realities. In principle, the names of companies should match the nature of professions and business characteristics. All companies must have their own funds suitable for their form of business. These funds should include the fixed assets and floating funds. The bank loans should not be regarded as private funds. The private floating funds of a company engaging in technological development or service trade should not be less than 50,000 yuan; those of a company engaging in retail trade should not be

less than 100,000 yuan; and those of a commercial company engaging in wholesale trade should not be less than 200,000 yuan. All companies must have their fixed floor space and installations suitable for their form of business. The floor space of business rooms of a commercial company or a supply and marketing company should not be less than 60 square meters. Commercial companies and supply and marketing companies should also have their appropriate storehouses and storage facilities. Those companies which lease land, houses, and facilities should offer leases or contracts. All companies focusing on retail trade are allowed to concurrently engage in the related or similar trades, with their specialized trade as the key link. By no means should such companies give up their specialized trades.

CSO: 4006/887

ECONOMIC MANAGEMENT

QINGDAO ECONOMY, DEVELOPMENT PLANS DISCUSSED

HK030707 Beijing CHINA DAILY (QINGDAO SUPPLEMENT) in English 3 Sep 85 p 1

[Article by Ma Yannong, director of Qingdao City Planning Commission]

[Text] Qingdao possesses many advantages over other cities in the development of the economy. The city has always maintained close economic contacts with its neighboring cities and provinces. Its well-developed textile industry, transport network, excellent natural seaports and beautiful scenery have helped the city in its economic development.

Today, Qingdao has become one of China's important bases for trade with foreign countries. The city's more than 400 export products go to around 120 countries and regions in the world.

Qingdao has a comprehensive, well-developed industrial system. It is one of the most important bases of the textile industry in the country.

The city also has well-established machine-building, and food and drink industries. It is the third largest rubber processor in the country and the electronics industry's output accounted [as published] for one third of Shandong's total.

The city's existing 1,971 enterprises employ more than 500,000 people. In 1984, the city's industrial output reached 8.5 billion yuan.

More than 20 percent of the city's products have won national or provincial quality awards, Qingdao Beer, silica gel, soda ash, Blue Sky brand sportswear, Longevity brand peanut oil, Jimo laces and Seagull brand hand-made carpets enjoy great popularity at home and abroad.

Qingdao has a solid agricultural base, producing peanuts, cotton, fruit and aquatic products. In recent years, the planting of cash crops has been increased and the breeding of pigs, fish and other livestock expanded.

In 1984, the city's total agricultural output was valued at 2.9 billion yuan. Total output of grain reached 2.45 billion tons, cotton 40,000 tons, oil crops 330,000 tons, fruits 150,000 tons, and aquatic products 110,000 tons.

Qingdao holds great potential and good prospects for economic development. The city plans to raise its economic efficiency and accumulate wealth so that it will be able to quadruple its 1980 industrial and agricultural output by the end of the century.

To meet the goal, the city government has worked out a general plan for future development.

I. Construction of key projects.

Transport: Harbor berths now being built will be able to handle 10,000-ton or more container ships. Preparation for the first-phase expansion of Qingdao Harbor has been completed. After the whole harbor has been finished, loading and unloading capacity will far exceed the present capacity. The city will become a center for oceangoing transport.

The expansion of Qingdao Airport is already under way and new domestic and international routes will be added.

New railway lines connecting Qingdao and other cities in the province will reduce the distance between the city and inland areas. The city's roads are also to be improved. A ferry line between the city proper and Huangdao Island is planned, and microwave communication is also going to be installed to speed up the city's existing facilities.

Water and electricity are key factors for Qingdao's economic development. A long-term plan has been worked out to meet the growing need. The planned power plants will greatly increase the city's generating capacity.

The State has decided to divert the Yellow River to Qingdao to ease the city's water shortage. Preparation is already under way.

The city government is also planning to build more apartments for its urban residents as well as recreational centers. A stadium is to be built near the Huiqian Bay. Libraries, a marine science hall, hospitals, guest-houses and sanatoriums are also on the list.

II. Adjustment of production.

The city government plans to link up rural and urban areas and diversify its economy. Through an adjustment of the production structure, the city will tap the full potential of urban industries and rural resources.

Grain crops, fruits, animal husbandry and fishery are all expected to expand.

So far only half of the city's shores and shallow sea areas are used to cultivate prawns, sea cucumbers, fan shells and other marine products. More apple trees, grapes and other fruit trees are to be planted in the hills of the city's six counties.

All this will provide raw materials for the city's industries and for the production of exportable products.

The development of industries in nearby townships, transport, commerce and service trades in the rural areas have developed rapidly. Some products can be processed locally for export. In some places, negotiations are being held to introduce foreign technology and processing techniques for export. In the future, the city of Qingdao will develop large and medium-sized factories in rural areas or in its technical and economic development zone. Some factories will establish branches to help local industries.

In the urban area, priority will be given to the development of technology-intensive industries. Also, information services, consultancies, advertising and packaging will be encouraged to serve the open policy and subsequent economic and technical exchanges. Tourist facilities will also be upgraded.

III. Improving the quality of technical personnel and production.

As an industrial base, Qingdao still needs to upgrade the quality of its existing enterprises. The realization of industrial growth before 1990 will in part depend on the technical modernization of existing enterprises. The city's general aim is by the end of 1990 to bring the technical level of key enterprises to the level of developed countries in the early 1980s. Priority will be given to key products, quality and economic efficiency. Efforts will be made to import advanced equipment to catch up with developed countries. Modernization of the textile rubber and machine-building industries will be speeded up.

CSO: 4020/345

ECONOMIC MANAGEMENT

BRIEFS

REFORMS IN CADRE SYSTEM--The organization department of the provincial CPC Committee, the political department of the provincial planning and economics commission, and the provincial federation of trade unions recently issued a joint circular calling on the province to act according to the views of Chongqing and Zigong regarding reform of the enterprise administrative cadres system, and gradually institute systems of democratically electing or hiring plant and mine managers and directors and affixing on them responsibility for attaining specific targets during their term of office. This is for the purpose of employing the generation of new people still better and forging a vast force of cadres for managing the socialist economy. In recent years Chongqing City has boldly pioneered reforms in the system regarding leading cadres of enterprises. At present 603 enterprises in the city have instituted the system of democratically electing plant managers. Results have been very good. Zigong City has also made specific arrangements for this work in accordance with the spirit of the central instructions on reforming the cadre system. [Text] [Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 4 Sep 85]

CSO: 4006/902

FINANCE AND BANKING

HUNAN TAX BUREAU DISCLOSES SERIOUS TAX EVASION PROBLEM

HK240351 Changsha Hunan Provincial Service in Mandarin 2300 GMT 23 Aug 85

[Text] The provincial tax bureau held a press conference in Changsha on 23 August, at which bureau director (Chen Mingyi) reported on the basic situation and work arrangements in checking on tax evasion in the province.

He pointed out: Tax evasion in Hunan is more or less universal. According to incomplete statistics, 78 percent of units and individuals in the province are involved in it. Xiangtan City investigated 3,600 units, and found tax evasion in 87 percent of state-owned enterprises, 92 percent of collective enterprises, and an even higher percentage of individual traders. Changde, Shaoyang and Huaihua have investigated 210 so-called briefcase companies and discovered that they have evaded tax payments totaling 1.41 million yuan.

The tax inspection work in Hunan is being carried out in three stages. First, the enterprises are carrying out a self-inspection. Beginning in September, the tax departments will organize a major provincewide inspection, which will be completed by yearend. Urban and rural units and state-owned, collective and individual units will all be seriously inspected for all categories of taxation. Units and individuals that voluntarily inspect themselves and actively pay tax arrears will be dealt with leniently and will not be penalized. Units and individuals who continue failing to pay their taxes will be heavily fined. The few units and individuals whose cases are grave will be held criminally accountable.

CSO: 4006/889

FINANCE AND BANKING

SHANDONG HOLDS TELEPHONE CONFERENCE ON TAX INSPECTION WORK

SK181315 Jinan Shandong Provincial Service in Mandarin 2300 GMT 16 Aug 85

[Text] The provincial people's government held a telephone conference on the evening of 16 August to decide on carrying out a provincewide tax and financial general inspection.

Ma Shizhong, vice governor, spoke at the conference. He said: This general inspection on tax collection and financial affairs should be organized under the unified leadership of governments at all levels and should be grasped by a responsible person from start to finish. The content of inspection mainly includes three aspects of work:

1. We should comprehensively inspect tax evasion in all state and collective enterprises as well as in individual industrial and commercial households.
2. We should inspect financial affairs, including the arbitrary extraction of production costs and the reckless rise in profit retention by enterprises, the proportion of use of special funds, and various unreasonable expenses.
3. We should inspect arbitrary tax reductions and exemptions in the course of implementing the tax policy.

Comrade Ma Shizong said: This inspection, in principle, is to investigate problems that have cropped up since 1984. The method of self-inspection, mutual inspection, and inspection carried out by specialized organs will be applied and the work will be carried out in a step-by-step manner. The inspection will begin now and will conclude by the end of the year.

Comrade Ma Shizhong stressed in conclusion: The key to making this general inspection successful lies in leadership. Party and government leaders should speed up studying and formulating inspection plans, personally participate in mobilization meetings to make arrangements for the work, and strive to carry out the inspection work in a down-to-earth manner.

CSO: 4006/889

FINANCE AND BANKING

SICHUAN MEETING STRESSES TIGHT FISCAL CONTROLS

HK180425 Chengdu Sichuan Provincial Service in Mandarin 0030 GMT 17 Aug 85

[Text] The provincial government held a telephone conference yesterday evening, at which Vice Governor Gu Jinchi stressed that the government at all levels must strengthen leadership over fiscal and taxation work, get a good grasp of revenue, strictly control expenditures, do a thoroughly good job in increasing revenue and economizing spending, seek balanced budgets, and insure the satisfactory fulfillment of the province's budget for this year.

Gu Jinchi said: Generally speaking the implementation of the budget in the province is good. However, there are also a number of problems. The main ones are: Economic results are not too good; there is serious tax and profit payment evasion; and administrative expenditures have not been cut.

The last few months of the year are the busy time for revenue work. Expenditures are also relatively concentrated then. To insure that balanced budgets without deficits are achieved at all levels, the government must strengthen leadership over fiscal and taxation work, strive to raise economic results, work to increase output of energy, primary raw materials, and light and textile products for which there is great demand, expand commodity circulation, and make good arrangements for the busy markets after the autumn harvest. All sectors and trades must map out specific goals and measures for cutting production costs, increasing output, and reducing deficits and increasing surpluses, and work hard to implement them.

On carrying out a major check on taxation and fiscal work at present, Gu Jinchi said that by means of this check, all units and individuals should correctly implement the decrees regarding taxation policies and over fiscal and economic discipline. They should spontaneously undertake their obligation to pay taxes, and pay the whole amount to the state on time. Economic sanctions must be levied in cases of tax evasion and violations of fiscal and economic discipline. Disciplinary action must be taken in serious cases, and violations of the criminal code must be punished according to law.

Gu Jinchi said: We must resolutely cut administrative expenditures and the purchasing power of social groups. We must complete on time our task of subscribing to state bonds. Vice Governor Wu Haiqing presided at the meeting.

CSO: 4006/889

FINANCE AND BANKING

CONTROL OF CONSUMPTION FUNDS URGED

OW301339 Beijing XINHUA in English 1304 GMT 30 Aug 85

[Text] Beijing, 30 Aug (XINHUA)--Too rapid an increase in wages and other forms of consumption funds is detrimental to the healthy development of the national economy and the nation's economic restructuring, the "people's daily" says today.

Again the paper slashes leaders of departments, enterprises and localities who have ignored the state council's directives on curbing the increase of such funds.

These leaders have even cut down production funds to save money for distribution among their people, the daily says in a frontpage editorial. Cases are numerous in which people have used public money to travel.

Too rapid an increase in consumption funds will adversely affect production, make social demand exceed social supplies and cause price hikes to take place, thus damaging the stability of social order and the economic restructuring as a whole.

The old economic system overstressed state control and unified distribution, thus reducing the decision-making powers of enterprises and suppressing worker initiative to improve economic efficiency.

Nevertheless, the paper says, the current economic restructuring does in no way mean to remove control over everything.

The government has put up a ceiling on the total volume of wages. "Governments at all levels, central departments and enterprises must resolutely carry out this (central) decision and on no account must the ceiling be broken," the paper says.

CSO: 4020/346

FINANCE AND BANKING

TECHNICAL IMPROVEMENTS INCREASE PROFITS, TAXES

OW291136 Beijing XINHUA in English 1039 GMT 29 Aug 85

[Text] Jinan, 28 Aug (XINHUA)--Shandong Province, has made 6,000 technical improvements in its 20,000 factories since 1981 when the sixth five-year plan started, Tang Shoukang, vice-chairman of the provincial economic commission said today.

Because of the technical updating, output value rose by 11 billion yuan and profits and taxes turned over to the state rose 55 percent to 2.2 billion yuan.

During the seventh five-year period (1986-1990), Tang said, economic reform will continue to be centered on technical reform, expansion and rebuilding.

Shandong's industrial output value in 1984 came to 45.6 billion yuan, fourth highest in China following Shanghai, Jiangsu and Liaoning.

Shandong increased output of 5,000 kinds of manufactured goods, textiles and other daily-use articles and improved 4,000 products through technical renovation. Four hundred new products were introduced, including high-speed precision lathes and series 100 diesel engines.

More than 40,000 old machines on 200 production lines were updated and equipment worth 375 million U.S. dollars was imported.

The textile industry added 550,000 cotton spindles, 55,000 wool spindles and 10,000 wide looms.

More than 1,000 industrial boilers and kilns were improved and the standard coal consumed for every 10,000 yuan of industrial output value was reduced an average of 23 percent.

CSO: 4020/346

FINANCE AND BANKING

BRIEFS

CHONGQING INCREASES REVENUE--From January to July, Chongqing City's financial revenue was 32 percent more than the same period last year, ranking top of the state. The figure for January, which is the lowest one, was also higher than last year's monthly average; whereas the figure for July, which is the highest one, reached more than 200 million yuan, an all-time high level. [Chengdu Sichuan Provincial Service in Mandarin 1030 GMT 21 Aug 85 HK]

YUNNAN TAX INSPECTION--The provincial people's government recently decided to launch a major inspection of tax work beginning on 24 August. (Wang Qingchen), director of the provincial tax bureau, conveyed this decision at a provincial tax work meeting on 24 August. The decision said: The aims of conducting this major tax work inspection are: 1) to oppose unhealthy trends in the economic field and put a stop to illegal activities such as tax evasion; 2) to conduct education in paying tax according to law for the enterprises, units, and the masses; 3) to take economic sanctions against those people who deliberately avoid paying the state taxes, and punish violations of the criminal code; 4) to further strengthen tax management work and recover tax arrears. [Excerpt] [Kunming Yunnan Provincial Service in Mandarin 2300 GMT 24 Aug 85]

GUANGDONG TAX COLLECTION PROBLEMS--The provincial government recently circulated a notice from the provincial tax bureau regarding cases of beating up tax collection cadres in the execution of their duties, and demanded that the province punish according to law those lawbreakers who evade tax and surround, attack and beat up tax collection personnel. The provincial government's circular pointed out: Some units are evading taxes in varying degrees. Some taxpayers even surround, attack and beat up tax collection cadres. According to incomplete statistics from departments concerned, there were several hundred cases of such attacks and beatings from January last year to May this year. In some places these cases are dealt with in a weak and ineffective way, and the perpetrators are even tolerated and abetted. The provincial government stresses in its circular: In order to uphold the solemnity of the tax laws and insure the state's financial revenue, the government at all levels must strengthen leadership and organize the departments concerned to carry out a serious check. Lawless elements who evade tax, refuse to be inspected, and even surround, attack and beat up tax collection personnel must be punished according to law. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 24 Aug 85]

GUANGDONG CURRENCY CONTROL--The provincial people's government recently approved and relayed the provisional regulations on currency control formulated by the Guangdong Branch of the People's Bank of China. The regulations stipulate that in exercising currency control, it is necessary to strictly adhere to the system of depositing cash in banks and credit cooperatives. If cash from a unit's business income, from the income of [words indistinct], and from other income exceeds its cash limit in stock, they should be deposited in the bank the same day. The regulations request that if units owned by whole people need cash to pay wages and bonuses to staff members and workers, they should report and submit in advance to the bank the plans for using cash for wages and bonuses approved by the labor departments and responsible departments of the units. The regulations also work out punishments for violating currency controls. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 23 Aug 85]

JILIN TAX REVENUE--In the first half of the year, taxes collected by tax departments in Jilin Province amounted to 1,511,440,000 yuan, of which 1,048,820,000 yuan were industrial and commercial taxes. Deducting the factor of shifting from the profit-delivery system to one of taxation, in the first half of the year the province fulfilled the annual tax target by 57.8 percent, an increase of 25 percent--198.92 million yuan--over the corresponding period in 1984. In addition, among the 10 prefectures and 49 counties (cities), 10 prefectures and 45 counties (cities) had their annual tax targets fulfilled by more than one-half by mid-year. [Text] [Changchun JILIN RIBAO Chinese 23 Jul 85 p 1 SK]

SHANGHAI STEEL COMPLEX--According to a disclosure by the Shanghai branch of the Construction Bank of China, the power plant of the Baoshan Iron and Steel Complex had repaid all the capital construction loan of 170 million yuan by the end of June. The power plant was the first project of the complex to go into operation. By the end of June, it had generated an accumulated total of 1.1 billion kWh of electricity. [Shanghai City Service in Mandarin 0100 GMT 6 Aug 85 OW]

HAINAN OVERFULFILLS REVENUE QUOTA--The Hainan Oi and Miao Autonomous Prefecture has overfulfilled this year's financial revenue quota by 80.96 percent and 5 months ahead of schedule. The reason for this autonomous prefecture's good results in financial revenues is that it has earnestly implemented the party's line, principles and policies, and has made use of the special policies and flexible measures approved by the central leadership to promote industrial and agricultural production. The autonomous prefecture's gross industrial output value for the first half of this year increased by 84.5 percent over the same period last year. Profits increased by 103.4 percent. For the first time since liberation there are no counties, cities and towns in the area suffering losses. The total agricultural tax income of the prefecture from January to July this year increased by 5.12 percent over the same period last year. The development of industrial and agricultural production has brought about a brisk market. Both buying and selling are brisk. In the first half of this year, the total retail volume of social commodities increased by 9.3 percent over the same period last year. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 19 Aug 85]

JIANGXI FINANCIAL WORK--According to the Jiangxi Provincial Economic Commission, during the first half of 1985, the province's cash receipts reached 6,113 million yuan, an increase of 35.7 percent over the same period of 1984, and expenditure during the same period was 6.03 billion yuan, an increase of 34.8 percent over the same period last year. The favorable balance of 83 million yuan was achieved precisely at a time when a great amount of cash was needed to subsidize the prices of meat sold in urban areas and the living allowance for retired personnel, and to award administrative units and institutions for having conserved operational expenses. [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 27 Jul 85 OW]

SHANDONG TREASURY BONDS--As of the end of June, Shandong Province had subscribed for 348.03 million yuan of treasury bonds, overfulfilling the assigned task. The amount of money earned from selling treasury bonds handed over to the state reached 156.66 million yuan, accounting for over 45 percent of the total assigned task. [Jinan Shandong Provincial Service in Mandarin 2300 GMT 20 Jul 85 SK]

SHANDONG TAX REVENUES--As of the end of July, Shandong Province handed over more than 3,207 million yuan in industrial and commercial taxes to the state, fulfilling the annual plan by 50.71 percent if calculated in terms of comparable items, and showing an increase of 18.02 percent over the corresponding period of 1984. [Jinan Shandong Provincial Service in Mandarin 2300 GMT 22 Jul 85 SK]

SHANDONG AUDIT WORK--In the first half of 1985, audit organs at all levels throughout Shandong Province made marked achievements in strengthening supervision over audit work. In 1,830 units that had been audited throughout the province, 145.36 million yuan in illegally gained money was uncovered, of which 101 million yuan was gained in violation of financial and economic discipline. [Jinan Shandong Provincial Service in Mandarin 2300 GMT 6 Aug 85 SK]

HUBEI BANK HELPS AGRICULTURE--Despite a shortage of credit funds, the province's agricultural banks are tapping internal potential and developing sources of funds for supporting agricultural production. From the beginning of this year, the province's total amount of agricultural loans has increased by 45.6 percent over the same period of last year. In tapping the internal potential, the banks formed 920 special groups for clearing up loans, staffed by more than 10,000 cadres. They went to over 1,000 shops, over 4,000 credit cooperatives, and over 60 import and export companies to examine and clear up loans granted in the past. Depending on local governments and departments, they worked out repayment plans for unauthorized loans granted to them. [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 12 Aug 85 HK]

BALANCE OF PAYMENTS--Tokyo, 2 Sep (KYODO)--China had a current account surplus of 2.03 billion dollars in its balance of payments for 1984, down sharply from 4.24 billion dollars for 1983, according to an announcement by the people's bank of China on radio Beijing monitored in Tokyo. The Chinese central bank said in its first ever disclosure of China's balance of payments standing that the decline was due chiefly to an acute drop in trade surpluses from 1.99 billion dollars in 1983 to 14 million dollars in 1984, the broadcast said. The surpluses came mainly in transportation, tourism and other nontrade earnings.
[Text] [Tokyo KYODO in English 0249 GMT 2 Sep 85]

SPECIAL LOAN SERVICE--Beijing, 1 Sep (XINHUA)--The industrial and commercial bank of China is to issue 500 million yuan of bonds and open a special loan service. The one-year bonds are in 20-, 50- and 100-yuan amounts and will draw a nine percent interest. They will be sold to city people who will receive capital and interest at the same time. The bonds cannot be redeemed ahead of time, circulated, or transferred, according to the bank. The funds collected will be used for special loans at an interest rate of between 12 percent and 14 percent.
[Text] [Beijing XINHUA in English 0630 GMT 1 Sep 85]

CSO: 4020/346

MINERAL RESOURCES

BRIEFS

SHANDONG GOLD PRODUCTION--As of the end of July, Shandong Province fulfilled the annual gold production by 71.89 percent. [Jinan Shandong Provincial Service in Mandarin 2300 GMT 14 Aug 85 SK]

CSO: 4006/889

INDUSTRY

WASHING MACHINE PRODUCTION UP IN FIRST SEMESTER

OW030804 Beijing XINHUA in English 0730 GMT 3 Sep 85

[Text] Beijing, 3 Sep (XINHUA)--China produced 4.12 million washing machines in the first six months of this year, according to the light industry ministry. This was 70 percent more than in the corresponding period of last year.

By the end of this year the ministry expects to produce a total of 8.3 million washing machines.

China's output of these domestic appliances grew 22.6 times in the 1979-1984 period, from a mere 18,000 to 5,783,000 units a year.

The rapid development of this sector was necessitated by the mushrooming of consumer demand, the ministry said. Sales of washing machines nationwide increased from 235,000 units in 1980 to 6,740,000 in 1984, or an increase of 95.7 percent annually, compared with an average annual increase in production of 88.2 percent in the same period.

At present, China produces more than a dozen kinds of washing machines, a transition is now taking place from the low-grade one-tub washing machines to twin-tub and semi-automatic sleeve-tub washing machines. In the first half of this year, the proportion of twin-tub washing machines rose from 10 percent in the corresponding period of last year to more than 30 percent.

By the end of June, China had 108 washing machine factories, including nine factories each producing more than 200,000 units a year. The need for components and spare parts is now basically met by Chinese production.

In order to accelerate the technical upgrading of existing factories, contracts have been signed by Chinese washing machine makers across the country to import 25 items of production machinery with a total annual capacity of 7,540,000 units. More factories are also prepared to sign contracts with foreign manufacturers for additional projects.

The ministry forecast annual sales of more than 12 million washing machines on the domestic market by 1990. It said, in order to raise economic efficiency and ensure quality, the state council has decided to issue licenses to washing machine factories. Those which fail to meet state targets for quality and economic standards will be forced to halt production of this item.

CSO: 4020/345

INDUSTRY

BRIEFS

SHANGHAI TEXTILE PRODUCTION--Shanghai's total textile output value in the first 6 months of this year amounted to 7.37 billion yuan, and profit rose to 1.44 billion yuan. This represents increases of 3.85 and 6.3 percent, respectively, over those in the same period of last year. [Summary]
[Shanghai City Service in Mandarin 0100 GMT 11 Aug 85]

CSO: 4006/887

CONSTRUCTION

NEI MONGGOL OFFICIAL ON SCALE OF CAPITAL CONSTRUCTION

SK180440 Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 11 Aug 85

[Excerpt] On the afternoon of 10 August, at the rally of responsible cadres of various organs at the regional level, Bu He, chairman of the region, called on all localities, departments and units to review and examine the capital construction projects and the administrative expenses, and rapidly adopt effective measures for curtailing the scope of capital construction projects, organizing income and strictly controlling expenditures in order to contribute to the fulfillment and overfulfillment of the struggle goal for revenue in 1985.

Comrade Bu He first analyzed the regional economic situation. He said: Overall, the regional economic situation in the first half of this year was not bad, and the economy continually developed, with a good orientation. New progress was made in all items of work, and the stable and united social life was further strengthened.

He pointed out: There still are some problems not to be ignored in the economic work in the first half of this year. To put it briefly, we failed to exercise effective control over the macroeconomic development. The major indicators of this situation are the expansion of capital construction scope, the sharp increase in the consumption fund, and the excessive expenses in administrative affairs.

Comrade Bu He called on all localities, departments, enterprises, and institutions to strictly implement all stipulations adopted by the central and regional authorities concerning the capital construction, and strictly control the scope of capital construction. To this end, he put forward some new regulations:

1. Approval should not be given to capital construction projects which thus far have not been brought into line with the plan.
2. Those capital construction projects whose sources of funds and raw materials have not been ensured should not be started, even though they have been brought into line with the plan. Those projects which have already been started but whose sources of funds and raw materials have not been ensured should also be suspended immediately. Those projects whose sources of funds

and materials have been ensured but which have not yet begun should not begin, for the time being.

3. All ongoing projects which have not been brought into line with the plan should be suspended.

4. No unit is allowed to increase the capital construction projects which are not covered by the plan, and a necessary clearing-up should be conducted among the on-going projects. In developing capital construction projects with private funds, priority should be given to ensuring the source of funds. Those who have not deposited their funds at construction banks at all levels and those whose period of deposit is less than 6 months should not be allowed to develop capital construction projects with their own funds.

5. All banks are strictly forbidden to overstep authorities to give loans to capital construction projects, so that all the funds can be earmarked for their specific purposes.

6. Banks at all levels should actively help the government control the scope of capital construction projects developed locally, and should conduct regular check-ups over the loans they themselves have issued. Once a problem is discovered, the bank presidents should be called to account.

7. In addition to being used for issuing bonuses and increasing the welfare funds in line with the stipulations, all the tax revenues and profits of industrial and mining enterprises should be used for replenishing, at a proper ratio, the floating capital for developing production. It is strictly forbidden to divide and use up such tax revenues and profits.

8. Construction departments at all levels should strictly guarantee the quality of projects. As for the projects which have already caused losses, we must investigate, and affix the responsibility for the losses.

9. With the regional Discipline Inspection Commission at the head, we must rapidly review all the construction projects in the region. All evil trends and violations of law in capital construction projects should be dealt with severely.

Speaking of reducing the expenses in administrative work, Comrade Bu He pointed out: This year, the state demanded that we trim administrative expenses by 10 percent, overall. Factoring in the increased expenditures for the wage readjustment in the second half of this year, the administrative expenses should be reduced by more than 20 percent in reality. However, in the first half of this year, our region's administrative expenses increased, instead of being reduced, over the corresponding period in 1984. This resulted mainly from the excessive increase in the size of the staff of administrative institutions, the sharp increase in the number of vehicles, and the excessive holding of meetings.

CSO: 4006/887

FOREIGN TRADE AND INVESTMENT

STRATEGIES FOR IMPROVING STANDING IN GLOBAL TECH TRADE

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 6, 27 Jun 85 pp 10-12

[Article by Hu Jun [5170 6511] and Zhang Bingshen [1728 3521 3947]: "The Challenge and Opportunity of the New Technological Revolution"]

[Excerpts] I. China's Position in Global Technical Trade

As science and technology made spectacular advances after World War II, the transfer of technology in the international market, commonly referred to as the global technical trade, also gained momentum. Technology is a specialized branch of knowledge which arises from combining systematic scientific knowledge with mature practical experience and operational skills. It includes rational knowledge, including principle, design, calculations, applications, debugging, as well as practical experience and operational skills. But this is technology in the form of knowledge. There is also a material form of technology which manifests itself in concrete objects such as machine tools and equipment. But to be useful at all, concrete objects like machine tools must depend on a specific operating procedure, such as testing and analysis. As a result, technical trade refers to the selling and buying of the knowledge of industrial production as well as the buying and selling of hardware like machinery and equipment. In global technical trade, China is at a disadvantage.

A. China Accounts for a Minute Share of Global Technical Trade

Global technical trade today is still concentrated in the hands of advanced industrial nations, with the United States, Japan and Western Europe accounting for 80 percent. The Soviet Union and countries in Eastern Europe account for 10 percent and developing nations, about 10 percent. China's share is less than 1 percent.

B. Deficit in Technical Trade

In global technical trade, the United States, Britain and France enjoy a favorable balance of trade, while Japan and the Federal Republic of Germany have been running up deficits. A deficit in technical trade does not accurately reflect a nation's standard of technology; despite their trade deficits, Japan and the Federal Republic of Germany are formidable technical

powers. They extensively import technology mainly to reduce the technical gap between themselves and other nations and fill the void in their technical know-how. China's technical trade deficit, on the other hand, is explained by its backwardness. Now and then it does appear in the international market as a seller, but our share of sales is tiny; we account for only 0.14 percent of the world's trade in electrical machinery goods, which is a gauge of a nation's technical standard.

C. The Structural Irrationality of Our Technical Trade

Since the People's Republic was founded, we have concentrated on the material form of technical trade. According to statistics, we spent about \$14.5 billion importing technical hardware between 1950 and 1979, including \$13.5 billion, or 93 percent, to finance the purchase of whole plants, and less than \$200 million on the import of technology in the form of knowledge. Since its establishment, the Shenzhen Special Economic Zone has introduced 2,282 projects, of which 80 percent were labor-intensive, processing projects using imported materials. Only 20 to 30 projects, about 1 percent, were of a more advanced nature.

We have a deplorable record in converting imported technical hardware into technology in its knowledge form and back into hardware again. In Japan, the ratio between import costs and research & development expenses is 1:7, compared to 1:1 in China. It can thus be seen that reversing China's unfavorable balance of trade in global technical trade directly influences our position and role in international trade.

II. The Challenge and Opportunity of the High Tech Revolution

The high tech revolution presents a severe test of our position in the global technical trade as well as an excellent opportunity for change.

D. The High Tech Revolution Presents an Opportunity To Change Our Unfavorable Position in Global Technical Trade

Over the entire course of human history and scientific development, there have occurred several spectacular outbursts of scientific and technical creativity accompanied by shifts in scientific centers: From the discovery of fire to the appearance of multi-center ancient civilizations as a result of the development of stone, pottery and bronze technologies; the progression from pottery and bronze technology to iron technology, accompanied by the shift of the scientific center from the ancient civilizations to China; the leap from iron technology to steam technology, when Europe replaced China as a scientific center; the transition from steam technology to electric, atomic, computer and space technologies, when backward America took over scientific leadership from advanced Europe. The culmination of all these developments is the internationalization of science. This brief review shows that the course of human history and scientific progress, and the development of productive forces, are full of ups and downs, and that progressiveness and backwardness are relative concepts. Britain's science and technology were unsurpassed during the Industrial Revolution; today, however, it lags behind the United States and Japan in information technology, telecommunications and bio-

engineering. Learning from the economic experiences of advanced nations and directly adopting the latest science and technology, a backward nation is capable of catching up with and overtaking developed nations. The high tech revolution has presented us with just such an opportunity. Much of the latest technology since the 1970's did not spring from new scientific discoveries or inventions, but is a refinement and extension of existing scientific concepts and technology. Before the high tech revolution, therefore, both developing and developed nations are at the same starting point. Such is the belief of Toffler, an American sociologist. It is possible for us to join advanced nations at the same starting point, developing new industries or directly using new technology to develop new industries.

To be sure, all developed nations and a number of newly semi-industrialized countries and regions are now engaged in a scramble to develop new technology and concentrating on the production of state-of-the-art products, to the neglect of a large amount of traditional industries and technologies. We can use this opportunity to zero in on certain traditional technologies and products which have not yet become outdated, improving their quality and lowering production costs. In the process, we can, on the one hand, fill the void of traditional industrial technology and corner for ourselves that segment of the international market, and, on the other, provide the nation with technical personnel and funds to develop embryonic industries and open up a market for new technical applications.

III. Measures To Change China's Unfavorable Position in Global Technical Trade

We are a huge nation with gross imbalances in our economic, scientific and technical developments. Generally speaking, we still trail behind the world in science and technology, but areas do exist where our products are technically on a par with international standards. We should take this fact as our starting point when we map out our strategies.

A. Major industrial cities on the coast should rid themselves of the burden of traditional industries, develop high grade, precision and advanced products, and foray into the arena of global technical trade. This is because they have a high concentration of scientific and technical know-how, a strong industrial base and relatively well-educated workers, thus making it both necessary and possible for them to compete in the global technical market. At present, however, the industrial structures of these cities are still dominated by traditional industries; in both Shanghai and Guangzhou, for example, traditional industries account for more than 80 percent of their respective industries. Hemmed in by traditional industries and bogged down in an antiquated structure, the cities cannot release the human resources and funds required for developing new technology and industries. Hence they must overhaul the traditional industrial structure and retain and develop those traditional industries which still have potential, modernizing them technically so as to upgrade their products. In addition, they must conduct high-tech research and develop sophisticated products to gain entry into the international market.

B. Transform the Irrational Mix of Technical Imports and Enable Scientific Research Units To Play Their Important Roles

For a long time we have always considered foreign trade a means whereby nations supply one another's needs and regulate surpluses and shortages, ignoring the importance of using foreign materials and resources. This mentality has resulted in an irrational mix of technical imports: too much technical hardware, too little know-how. Moreover, we have also done poorly in converting technology from one state to another. Consequently, if we are to change our status in global technical trade, we must first rationalize the mix of our technical imports, assimilate thoroughly whatever we do import, convert them from a material state to knowledge and back to material state, and, through foreign trade, promote economic growth and raise our scientific and technical standards.

To change our position in global technical trade also depends on our domestic scientific and technical prowess and how it is put to use. In the past, the country's scientific research units were basically divorced from production enterprises and foreign trade agencies. Not only was our scientific research capacity relatively limited, but it was also underutilized. The results were that technical trade was deprived of powerful support in the form of technology and that technical imports were not assimilated and converted into knowledge and reconverted into hardware in time. We must therefore change this closed and inward-looking scientific research management system, orient scientific research units toward production and the international market, and enable them to play an important role in global technical trade.

C. Work Harder To Make Special Economic Zones and Economic and Technical Development Zones a Success

As transfer stations for China's foreign trade, special economic zones and economic and technical development zones should be further consolidated, developed and improved. In particular, we must make full use of their strengths: geographic location, close relations with key cities and abundant technical resources in their surrounding areas. At the same time, we must be selective in our technical imports, focusing on the capital of some multinational companies, license trade and patent technology, so that through cooperative production and cooperative research, etc., we can sooner come to grips with the new technology and develop a capacity to export technology.

D. Develop Intellectual Resources and Devote Major Efforts to the Development of Software Export

As computer technology advances, the pace of software development is also quickening. Software costs have increased noticeably and will grow to account for 90 percent of the total costs of a computer system. The popularization of the microcomputer in society, in particular, will create an enormous market for software. Each year Japan produces only 60 percent of the software it needs, with a 40 percent shortfall. In the West, the demand for programmers rises by 23 percent annually, while the number of people trained to develop software grows by only 17 percent. Many developing nations today consider the development of software for export the way to go in reversing an unfavorable

position in global technical trade. Software exports by India soared from \$4.4 million in 1974 to \$14.4 million in 1981, which translates into an average annual rate of 80 percent. Ninety percent of them were bought by the United States, Western Europe and the Soviet Union. China is in a uniquely favorable position to develop software. In the opinion of Japan's Fujitsu Corp, Chinese-made computers are of an extremely high standard. The company has placed orders for basic software relating to scientific computation using large computers, which it plans to sell to Japanese consumers. Confronted with a serious shortage of programmers, Japan is reportedly watching China keenly. For all these reasons, we must make the training of programmers a priority and consider it a strategy in an all-out effort to change our place in global technical trade and end the inequitable monopoly of technology by advanced nations.

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CSO: 4006/819

FOREIGN TRADE AND INVESTMENT

WAYS TO REFORM LOCAL FOREIGN TRADE STRUCTURE SUGGESTED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 1, Jan-Feb 85 pp 26-28

[Article by Zhang Meiting [1728 5019 1656]: "A Preliminary Study of the Problems in Restructuring Prefectural and County Foreign Trade"]

[Text] The State Council has recently approved and transmitted a report of the suggestions by the Ministry of Foreign Economic Relations and Trade concerning reform of the foreign trade structure and has decided to implement the basic principles in foreign trade of separating the functions of government and enterprises, the import-export agent system, and combining foreign trade enterprises with industrial and technological undertakings. This is a major reform of China's foreign trade structure. It conforms to the objective economic law of socialist foreign trade as well as China's national conditions and is bound to create a profound and long-term effect on the implementation of the state policy of enlivening the domestic economy and opening up to the outside world, further developing foreign trade and promoting the modernization drive, which is highly significant. Along with the implementation and development of this reform, reform of prefectural and county foreign trade which primarily undertakes the task of organizing the sources of goods for export has been placed on the daily agenda and become an important subject of discussion, followed with interest by the broad masses of foreign trade cadres and staff workers, particularly those at the prefectural and county level. The correct resolution of this issue is extremely significant to the development of China's foreign trade. This article is a preliminary study of the problems concerning ways to reform the prefectural and county foreign trade structure. It is hoped that informed readers will comment on any inadequacies.

1. In terms of the functions of enterprises, the unitary function of procurement should be changed to the multi-functional type which includes procurement, agent, processing, production and consultation services as well as concurrent management of domestic trade. Due to the further reform of the foreign trade structure and foreign trade, the following changes and requirements have been brought to the work in prefectural and foreign trade: (1) For some of the quantity export commodities whose sources are more concentrated, foreign trade corporations and supply enterprises with management authority are bound to link up directly in order to improve foreign trade economic results and increase their economic benefits rather than going

through the intermediate link of prefectural and county foreign trade enterprises. (2) For some of the export commodities whose sources are scattered, foreign trade corporations which have management authority will still need prefectural and county foreign trade enterprises to undertake procurement tasks on their behalf or require them to act as export agents after this type of commodity is procured and gathered. (3) Due to the growth of foreign trade, there is an objective need for prefectural and county foreign trade enterprises which originally managed procurement and are familiar with the management of export commodities and some of the production techniques, or which possess self-run production enterprises, to directly manage or cooperatively manage the production of export commodities in order to increase the supply of marketable and relatively competitive export commodities. (4) Along with the open door and development in foreign trade, close connections between the domestic and international markets have gradually developed and some domestic enterprises have an urgent need for information concerning international economics, markets, commodities, technology, management and trade, and they demand the development of consulting services. (5) With the reduction of some of their procurement services, prefectural and county foreign trade enterprises also have an urgent need to make use of their own human, financial and material resources as well as their potential capabilities to open up new areas of business. (6) Along with the increased demand on the economic results of enterprises and the development of social division of labor, there is an objective need for prefectural and county foreign trade enterprises to gradually become specialized and socialized.

In order to meet the needs of the new situation after reform, give play to and tap the potential of the actual and latent superiority of prefectural and county foreign trade in developing foreign trade, it is possible to rebuild currently comprehensive and large prefectural and county foreign trade enterprises into a number of small enterprises which separately engage in procurement, agent, processing, production and consulting services for one or several types of commodities, or they can be rebuilt into small comprehensive enterprises which separately engage in processing and production, procurement and agent, and consulting services. Some small enterprises can even directly serve as branch or jointly-operated enterprises of trading port corporations. With the exception of managing the supply of goods for foreign trade, the various types of enterprises mentioned above can also concurrently manage domestic trade services; they have the appropriate division of labor and are capable of overlapping areas of management; and they form groups of enterprises in the supply of foreign trade goods which have their own characteristics of management and which compete with each other.

2. In terms of the economic forms of enterprises, enterprises managing prefectural and county foreign trade services under the unitary system of state ownership should be changed to diversified economic forms under the systems of state ownership, collective and individual as well as joint management all at the same time. In order to strengthen the vitality of prefectural and county foreign trade enterprises, organize even more marketable and relatively competitive supply of goods for export and improve the economic results of prefectural and county foreign trade, we should break through the present situation in which prefectural and county foreign trade enterprises under the system of state ownership solely manage the supply of

foreign trade goods, and we should implement measures permitting existing enterprises supplying goods for foreign trade together with enterprises supplying goods for export under various industrial departments as well as permitting simultaneous coexistence of state, collective, and individual ownership. Besides rebuilding existing comprehensive and large prefectural and county foreign trade enterprises into several small and specialized enterprises, we should also adopt the following measures: (1) Contract or lease out some of the procurement stations, retail departments and processing plants of existing prefectural and county foreign trade corporations to collectives and individuals to manage. (2) Permitting collectives or individuals to set up new enterprises for supplying foreign trade goods and engage in processing and production or procurement and agent services. (3) We can rebuild existing production enterprises which mainly produce export commodities into enterprises in the supply of goods for foreign trade with production management as its major function but concurrently manage agent and procurement services in the same trade. (4) Develop cooperative management and economic union among enterprises in the state, collective and individual economic sectors as well as among industrial trade, agricultural trade, domestic and foreign trade, higher and lower level trade, establish supply centers for foreign trade goods and consulting service centers for the supply of foreign trade goods.

3. In terms of circulation channels, the vertical and closed type of channels should be converted to the horizontal and radiating type which is oriented toward ports for foreign trade. At present, the sources of export commodities of prefectural and county foreign trade organizations generally adopt vertical upward transfer and is a protective umbrella and mushroom type of circulation channel detrimental to the development of the production of export commodities and expansion of foreign exports. For this reason, we must follow the objective demands of economic divisions and rational flow of commodities as well as the law of value, permit prefectural and county foreign trade enterprises to market their export commodities to various trading port corporations outside their own provinces and other enterprises which have the right to manage foreign trade, or to commission them to develop agent services. We can also permit prefectural and county foreign trade enterprises to develop cooperative management with trading ports and other foreign trade enterprises outside their own provinces, thereby unifying external trade relations and enlivening the domestic economy and forming a network of channels for the sources of foreign trade goods.

4. In terms of the forms of management, the unitary form of management solely involving the procurement of export commodities should be changed to diverse forms of management. In order to improve management, enliven business and develop foreign trade, prefectural and county foreign trade enterprises must actively utilize and develop diverse forms of management. Other than direct procurement, processing and production, and acting indirectly as import-export agents, they should also develop diverse forms of management including compensatory trade, lease trade, credit trade, export of labor services, cooperative management, processing of imported materials, processing of imported samples as well as supplying market information and technical information in consultation services.

5. In terms of the methods of management, the extensive type of "extensive cultivation" should be changed to the intensive type of "intensive cultivation". Under the situation of the strong impetus of the new technological revolution in the world and the increasingly intense competition in foreign trade, in order to score victories in foreign trade we must rely on technology and knowledge, improve management methods and techniques and conduct "intensive cultivation." We must stress assimilating and applying advanced technology and improving the competitiveness of our commodities and labor services; become proficient in collecting, analyzing, using and giving feedback on information and improve the adaptability of commodities and labor services; strive hard to use modern scientific management techniques, seek the best input-output ratios and improve the effectiveness of commodities and labor services; and insist on quality service and increase the attractiveness of commodities and labor services.

6. In terms of the management system, semi-administrative enterprises should be changed so that the functions of government and enterprises are separated. Although prefectural and county foreign trade enterprises are called enterprises, they are in fact semi-administrative enterprises which manage services and are in charge of administration. This state of affairs in which the functions of government and enterprises are not separated is detrimental both to the administration of prefectural and county foreign trade and to the management of enterprises. For this reason, a portion of the departments and personnel in charge of administration of existing prefectural and county foreign trade enterprises should be separated from the enterprises to form a highly capable foreign trade bureau to oversee the administration of foreign economic relations and trade. Its major tasks will include: (1) Supervising the implementation of the policies, guiding principles and laws in foreign economic relations and trade. (2) Doing a good job in foreign trade allocations and planning. (3) Collecting, processing, analyzing and transmitting information. (4) Coordinating the relations among various types of foreign trade enterprises. (5) Drawing up medium- and long-term foreign trade plans for the local area. (6) Investigating and making recommendations for the hiring and dismissal of key cadres in foreign trade enterprises. (7) Performing other administrative tasks. After the functions of government and enterprises are separated, the prefectural and county foreign trade bureau will no longer interfere with the business management of foreign trade enterprises and other matters which are specified to be handled by the enterprises themselves.

7. In terms of the financial system, centralized state revenue and expenditure should be changed so that enterprises will be responsible for their own profit and loss and taxes will be paid according to regulations. Prefectural and county foreign trade enterprises under the system of state ownership should be financially separated from existing departments in charge of enterprises (provincial economic and trade departments, specialized provincial corporations); they should practice the use of funds with repayment, independent accounting, responsibility for profit and loss, remitting taxes rather than profits and retaining profits for use after paying taxes. Simultaneous with the proper management of the relationship between the state and enterprises, the relationship between enterprises and staff and workers should be changed from the past equalitarian distribution of "one drop of dew for one blade of grass" to the implementation of various contract

responsibility systems based on groups or individuals, directly linking the fruits of labor with payment for labor in order to mobilize the enthusiasm of the broad masses of staff and workers.

8. In terms of the system of planning, totally guided planning should be changed to conducting business essentially according to economic contracts. With the exception of principal commodities assigned by the state and the commodities specified and guaranteed by trade agreements for delivery which must be completed according to planning, for all other export commodities economic contracts should be concluded with concerned trading port corporations and supply units using the law of value and according to market conditions at home and abroad, so as to strengthen planning for export commodities and avoid arbitrariness.

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CSO: 4006/542

FOREIGN TRADE AND INVESTMENT

COMMODITY DISTRIBUTION, PHYSICAL DISTRIBUTION DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 1, Jan-Feb 85 pp 35-36, 42

[Article by Zhang Hongjun [1728 1347 0197]: " 'Commodity Distribution' and 'Physical Distribution' in Foreign Trade"]

[Text] When we talk about "circulation" we usually refer to the transferral of commodities from producers to consumers, that is, commercial sales activities which realize the transference of commodity ownership. Actually, such economic activities as "circulation" are not merely commercial sales activities but they also include material circulation in which the sellers hand over goods to the buyers. We call the former "commodity distribution" and the latter "physical distribution." Physical distribution includes the transportation of commodities as well as the packing, storage, loading and distribution which are carried out around transportation. Therefore, transportation is the heart of distribution.

"Wuliu [3670 3177]" are Chinese characters in the Japanese language which originated from the term "physical distribution" (abbreviated as PD) in the United States. "Physical distribution management" first became popular in the United States during the Second World War. Initially it was used in the supply of military materiel but was soon used in industrial circles and spread to Japan and Europe. In the 1960's, market competition intensified when Japan's economy entered the period of "high-speed growth." The potential that could be tapped by enterprises by reducing consumption of raw materials and energy and by economizing on wages became increasingly small. Therefore, they further tapped potential by economizing on physical distribution expenses and lowering physical distribution costs, which they regarded as the "third source" of making profits. More and more enterprises set up physical distribution agencies and large corporations even established specialized physical distribution subsidiary corporations. Since physical distribution techniques and physical distribution management have already become a new discipline, some comprehensive and specialized physical distribution societies have been formed one after another; some universities have set up the specialty of physical distribution; and governments have also promoted the rationalization of physical distribution by adopting a series of measures.

A. "Commodity Distribution" and "Physical Distribution" Attend to Their Own Functions and Are Interdependent

Judging from the entire process of "circulation," commodity distribution and physical distribution have different functions though they are interdependent. Commodities can only be transferred from the hands of producers to the hands of consumers through commercial sales. In this sense, there is no physical distribution without commodity distribution. However, commodity distribution must be based on physical distribution and is dependent on physical distribution to realize the ultimate goal of circulation.

In foreign trade activities, commodity distribution and physical distribution also attend to their own functions and are interdependent. The business activities of foreign trade enterprises include commodity distribution such as procurement, foreign marketing and import, as well as physical distribution such as packing, storage and transportation. Commodity distribution is the precursor of physical distribution, but if it does not possess the necessary conditions of physical distribution, commodity distribution will be difficult to carry out. For example, a major problem for the expansion of export in inland China is that there are goods but they cannot be shipped out. Coastal areas are so frequently limited by conditions of harbors and shipping operations that deliveries are delayed thereby affecting the development of trade. Therefore, commodity distribution and physical distribution must be adapted to each other if foreign trade is to develop successfully.

B. Tasks and Characteristics of "Physical Distribution" in Foreign Trade

There is much common ground between physical distribution in foreign trade and physical distribution in other areas, but judging from the tasks, orientation and structure of physical distribution in foreign trade, it has certain unique characteristics, primarily:

1. The goal of physical distribution in foreign trade is to realize the circulation of imported and exported commodities, and the main task is to assure the circulation of goods. Therefore, in actual work we must try every means to ship and deliver imported and exported goods to their designated locations according to the schedule, quality and quantity as required by trade contracts. Generally speaking, strengthening physical distribution management and improving physical distribution techniques are consistent with smooth circulation of goods. But some exceptions are frequently encountered. For example, according to the demands of the rationalization of physical distribution, the selection of freight routes should be based on "taking the shortcut without having to go far." However, when railroads or harbors are blocked off, it will be necessary to seek far for what lies close at hand, pay more on freight and look for unobstructed transportation routes. This is both necessary and rational from the standpoint of fulfilling foreign trade assignments.

2. International trade is an economic activity that is highly competitive and policy-oriented. In particular, export trade on the whole is currently a "buyer's market," and physical distribution in foreign trade must suit the demands of the buyers. At the same time, import-export physical distribution

must conscientiously implement foreign trade policies. Therefore, the economic results of physical distribution are ultimately manifested in the demand for trade.

3. The demand on safety and timeliness in the transportation of commodities by international trade is particularly strict. Priority should therefore be given to modernizing the tools, facilities, techniques and management in foreign trade physical distribution in order to benefit the open door and increasing China's competitiveness in foreign trade.

4. Transportation in foreign trade involves long distances and many links. The proportion of foreign trade physical distribution cost in the total cost of circulation far exceeds that in domestic trade. Each year foreign trade enterprises spend about 7 billion yuan on commodity distribution, of which transportation and miscellaneous costs amount to 4 billion yuan, or about 50 percent more than that in domestic trade. Moreover, the cost of foreign exchange makes up a good portion of it. Economizing on expenses in foreign trade physical distribution is therefore particularly important to lowering the cost of goods, increasing competitiveness and expanding export sales.

5. International physical distribution makes even greater demands on physical distribution information. In order to suit the needs of all quarters at home and abroad, physical distribution information work is particularly important; it is a major condition for raising the efficiency of physical distribution and assuring smooth circulation of goods.

6. Since foreign trade physical distribution is subjected to various national and international regulations, it is more complex in techniques and procedures. Moreover, the process of transportation has the character of being transregional, transnational, comprehensive and continuous. Judging from the organization and forms of transportation, "international multimodal transport" and "door-to-door" transport are the direction of development of foreign trade transportation. Therefore, it is necessary for us to develop China's network type of specialized enterprises in foreign trade physical distribution, that is, import-export freight agent enterprises to facilitate the formation of China's foreign trade physical distribution "network" which links the whole country and extends throughout the world in order to assure no obstruction in the entire course of foreign trade transportation.

7. Foreign trade transportation is international transportation. To realize various forms of transportation by sea, land, air and mail, it would be necessary to develop corresponding international cooperation. Apart from the bilateral or multilateral transportation agreements signed by Chinese authorities or civilians with foreigners as well as some joint venture transportation enterprises, China's specialized enterprise in foreign trade physical distribution (China National Foreign Trade Transportation Corp) has concluded and signed freight agent agreements with quite a few foreign enterprises in the same trade. This is a necessary measure to promote China's foreign trade physical distribution. This kind of work should be actively developed.

C. Vigorously Develop the Study and Construction of Foreign Trade Physical Distribution

Foreign trade is the circulation of export commodities of a country. As mentioned above, circulation is formed by commodity distribution and physical distribution (both of which include their own information services).

A tendency to "regard commodity distribution as more important than physical distribution" has existed among China's foreign trade departments and enterprises for a long time. In recent years, there have been numerous problems due to inadequate freight capacity, warehousing and packing materials which have directly affected the smooth completion of foreign trade tasks, and only then attention is gradually given to the three major links of physical distribution (transportation, storage and packing). But if physical distribution is to meet the needs of development of foreign trade, we still need to develop and build many areas. For this we propose:

1. Foreign trade departments and foreign trade enterprises must elevate the work in foreign trade physical distribution to the level of foreign trade service, earnestly study how to resolve problems in physical distribution, organize training in physical distribution services and enhance the quality of physical distribution personnel and the level of physical distribution management.
2. Specialized foreign trade enterprises must further strengthen cooperation with various import-export enterprises and communications and transportation departments; build and make use of physical distribution networks and centers at home and abroad; open all avenues of transportation and develop container transport, international multimodal transport and "door-to-door" transport; organize special train transport, chartered air transport, "three-fixed" marine transport and direct river-and-sea transport; develop foreign trade vehicles, ships, warehouses and other physical distribution facilities in order to increase the efficiency of foreign trade physical distribution and improve economic results and serve the development of China's foreign economic relations and trade.
3. Foreign trade departments, enterprises, research units as well as higher institutions of foreign trade and international trade associations must stress and develop research on the theories and practice of foreign trade physical distribution techniques. While they must use the experience abroad as reference, they must even summarize and exchange China's experience and continuously improve the theory of foreign trade physical distribution and the level of service.
4. Foreign trade universities as well as foreign trade colleges and technical secondary schools throughout the country must resume and set up specialities in foreign trade transport or physical distribution management, and train and provide high- and middle-ranking specialized personnel in foreign trade physical distribution for foreign trade departments and enterprises.

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CSO: 4006/542

FOREIGN TRADE AND INVESTMENT

PROFIT ASSESSMENT PROBLEMS WITH FLOATING FOREIGN EXCHANGE RATES

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 1, Jan-Feb 85 p 60

[Article by Cen Rongping [1478 2837 5493]: "A Brief Discussion of Problems in Accounting Profit and Loss from Exchange Rate Fluctuations"]

[Text] Exchange rate fluctuations result in profit and loss because the prices and accounts of export commodities marketed by foreign trade enterprises are quoted and fixed in foreign currencies. Generally speaking, profit and loss from exchange rate fluctuations should include those from the time a contract is concluded and signed to the time when goods are exported and payment is actually collected; this can reflect how accurately we predict changing trends of international finance and foreign exchange markets when a contract is negotiated and concluded as well as the economic results of selecting suitable currencies.

However, profit and loss from exchange rate fluctuations reflected by current accounting data of foreign trade enterprises are limited to those after goods are exported and documents are sent to the bank to negotiate payment until the notice of negotiated payment from the bank is received. In other words, it is the difference between foreign accounts receivable in yuan and foreign accounts actually collected in yuan. Currently there are three problems in the accounting of profit and loss from exchange rate fluctuations:

1. Since the major tasks of checking and sending documents and of collecting and expediting payments are the responsibilities of the bank after documents are received for negotiating payment, profit and loss from exchange rate fluctuations, interest and other costs due to the responsibilities of the bank which cannot promptly collect payment fall on the shoulders of foreign trade enterprises. This is irrational. At the same time, it also shows that profit and loss from exchange rate fluctuations in accounting data cannot accurately reflect the economic results of foreign trade enterprises.
2. Because of the current limitation on the accounting of profit and loss from exchange rate fluctuations, when we negotiate and conduct transactions with foreigners, we are unable to properly control transacted prices to make assessment, not knowing whether they are based on trends of international finance and foreign exchange markets.

3. Since comprehensive data on profit and loss from exchange rate fluctuations are lacking, if the gold guarantee clause or exchange guarantee clause is adopted in the contracts, it will be difficult to use equal proportions to adjust the amounts of money in the contracts to compensate for losses when currencies decline in value in the course of implementing the contracts.

In order to give overall representation to profit and loss from exchange rate fluctuations, I believe that we can add to the ledger sheets of "foreign credit accounts" the three columns of transaction date, same-day internally settled prices, and the amount of yuan converted. After a transaction is concluded, same-day internally settled prices should be indicated on the contract carried out by delivery, storage and transportation departments; after the commodities are exported and documents are sent to the bank to negotiate payment, the transaction date and same-day internally settled prices should be entered on the invoice submitted to the accounting department for record keeping and calculation on the ledger sheets of "foreign credit accounts."

In this way, accounting for profit and loss from exchange rate fluctuations will be conducted in two parts. First, the differences between foreign accounts receivable and foreign accounts actually collected, to be handled as other revenue and expenditure; second, the differences between the time transactions are concluded to the time exports are actually sent, to be used as accounting data collected for the higher level, and also given to service departments so that they may understand the specific conditions of profit and loss from exchange rate fluctuations, and used as a major basis for proper control of transacted prices by inspection and appraisal service departments in order to make up for past lack of accounting and well-conceived planning for this portion of profit and loss.

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CSO: 4006/542

FOREIGN TRADE AND INVESTMENT

REPORT SHOWS INVESTORS MAKE PROFITS IN SHENZHEN

OW031226 Beijing XINHUA in English 1206 GMT 3 Sep 85

[Text] Shenzhen, 3 Sep (XINHUA)--Many investors have found it profitable to cooperate with China in Shenzhen special economic zone (SEZ), according to a local taxation bureau report available to Xinhua today.

Some 171 joint ventures, cooperative enterprises and firms with exclusive Hong Kong, Macao or foreign investment were profitmaking last year. Their total profit came to an equivalent of 176 million yuan, the report said.

Though 57 enterprises declared losses, none has gone bankrupt yet.

As for deficits, the local authorities consider that the slump on international markets, out-of-date equipment and short supply of raw materials are responsible.

Many investors have expanded their investments or reinvested their dividends in Shenzhen, one of China's four SEZs where special policies are followed to attract overseas investment.

Over 1983 and 1984 investors remitted profits of 23 million Hong Kong dollars to Hong Kong, Macao or foreign countries.

Audra C. Mhuag, an investor from the United States, spent 30 million Hong Kong dollars on purchasing shares in a local hotel from a Hong Kong firm. In April this year, he added 40 million Hong Kong dollars to expand construction of the hotel.

He began receiving dividends two months afterwards, the taxation bureau report said.

Three Hong Kong shareholders considered that they were lucky to participate in a joint venture in Shenzhen.

The Victor Onward Printing and Dyeing Co. Ltd. earned 13.5 million Hong Kong dollars in the first year after it went into operation in April last year.

On the reasons for the success of the joint venture, deputy director Hu Guangchao said both sides understand and trust each other and each has fully displayed its own advantages.

The Hong Kong investors worked hard to promote sales while Shenzhen experts and workers retooled the factory to control pollution and recover soda ash.

Yoshiyuki Tsujii, general manager of a Sino-Japanese joint venture, attributed the success of his company to disciplinary sense, industriousness and skills of the Chinese workers.

The Huaqiang Sanyo Electronics Co. Ltd. produces cassette recorders and color tv sets. "I had never expected to make profits in the first year of operation," he told XINHUA.

The SEZ authorities have provided preferential treatment and other conditions for attracting overseas investment.

Liang Xiang, who resigned from his position as mayor of Shenzhen last week, was reportedly to have said: "It is wise to let investors make more profits than the international average."

The local government has extended the period for exemption and reduction of income tax, cut over 90 percent of ground use fees and helped the enterprises to market their products.

It has invested 4.6 billion yuan in improving transport, telecommunications and other infrastructure facilities since 1980.

The number of joint ventures, cooperative enterprises and firms with exclusive foreign investment has risen from 108 to 750 in Shenzhen since 1980.

Meanwhile, the director of the Shenzhen auditing bureau noted some auspicious omens. He said that some enterprises, which seem to run at a loss, are making their workers work overtime to fulfill increasingly great orders.

He also warned that some enterprises have presented false accounts to evade tax.

"The SEZ government will not ignore such wrongdoings," he said.

CSO: 4020/346

FOREIGN TRADE AND INVESTMENT

FOREIGN INVESTORS SIGN SHANXI COAL CONTRACTS

OW010136 Beijing XINHUA in English 1901 GMT 31 Aug 85

[Text] Taiyuan, 31 Aug (XINHUA)--About 35 million U.S. dollars-worth of contracts were signed between Shanxi Province, China's largest coal producer, and foreign investors during the 10-day Shanxi international economic and technological cooperation conference.

The contracts were signed for 66 projects, many of which took the forms of sino-foreign joint or cooperative ventures or enterprises engaged in compensation trade, according to a local official here today.

The conference was the second held by the province; the first was held last year. More than one-third of the projects were enterprises with foreign investment.

Contracts signed at the conference for projects in building material, transportation, machine building, coal processing, electricity, chemistry, and metallurgy were much more than those signed at last year's conference, accounting for one-third of the total 66, the official added.

Project contracts signed with the United States and western European countries also increased, accounting for 37 percent of the total, he noted.

Approximately 470 businessmen from 19 countries and regions attended the conference.

According to the official, 10 more projects were being talked over after the conference between the province and foreign businessmen.

CSO: 4020/346

FOREIGN TRADE AND INVESTMENT

JINZHOU MAYOR WELCOMES FOREIGN INVESTMENT

OW021923 Beijing XINHUA in English 1856 GMT 2 Sep 85

[Text] Shenyang, 2 Sep (XINHUA)--Liaoning Province is seeking foreign cooperation in building an export production center capable of producing more than 100 million yuan worth of export goods annually.

The center is located in mineral-rich Jinzhou City, an economic and cultural center in western Liaoning Province. It is a rising coastal industrial area with a population of 4.57 million.

The center will provide mainly metals, petro-chemical products, textiles and aquatic products, animal by-products, carpets, cereals and oils.

An international symposium is scheduled September 5 to discuss cooperation with foreign firms in building the production base.

"Priority will be given to attracting foreign capital and advanced technology and equipment in a bid to improve the quality of our products," said Hu Zhanshan, the mayor of the city.

The city has built trade relations with more than 40 foreign countries and regions. "We welcome more foreign firms to invest and cooperate with us," said Hu.

Chemical exports account for more than 50 percent of the city's total, said Hu. It has an oil refinery with an annual capacity of 75,000 tons and a number of export-oriented enterprises.

The center has equipment to process one million garments, Hu said.

In addition, it has built a prawn breeding farm, a fur processing plant and canned food processing plants.

CSO: 4020/346

FOREIGN TRADE AND INVESTMENT

BRIEFS

SWEDISH HIGH VOLTAGE EQUIPMENT PURCHASED--The success of the Asea firm in marketing high voltage equipment in China is continuing. It is the Asea HV Apparatus branch in Ludvika which now has succeeded in selling equipment worth 50 million kronor to the same buyer, China National Technical Import Corporation. This year it is circuit-breakers, current transformers, voltage transformers and valve sections which are being sold. The apparatuses are to be installed in the 500 and 220 kilovolt systems all over China. Among other lines, the vital 500 kilovolt one to China's biggest city, Shanghai, will receive the new Swedish equipment. [Text] [Stockholm DAGENS NYHETER in Swedish 26 Aug 85 p 10]

CSO: 3650/336

LABOR AND WAGES

RUI XINGWEN ADDRESSES SHANGHAI LABOR MEETING

OW251137 Shanghai City Service in Mandarin 0100 GMT 25 Aug 85

[Text] Speaking at the fifth enlarged meeting of the Seventh Shanghai Municipal Trade Union Council on the afternoon of 24 August, Rui Xingwen, secretary of the municipal party committee, urged all trade union organizations in Shanghai to play an active and leading role in reform and to unite, educate and mobilize Shanghai workers to build a material and spiritual civilization.

Rui Xingwen said: Trade unions should see things from a higher plane and take the overall situation into consideration. They should not only play a supervisory role but also offer advice and make suggestions in order to help the party and the government carry out the reform and breathe new life into enterprises.

Rui Xingwen emphatically pointed out: Party organizations and cadres should actively bring into play the role of the trade union and sincerely support trade union work.

He said: Whether a leadership fosters democracy, supports trade union work, and respects the democratic rights of the workers congress will measure whether it has party spirit and follows the mass line.

The 2-day meeting closed on 24 August after adopting decisions on further strengthening the democratic management of enterprises. It asked all grass-roots units to bring into play the role of the trade union and the workers congress in making major enterprise decisions, supervising management, and safeguarding the legitimate rights and interests of the workers in the course of economic reform.

CSO: 4006/889

LABOR AND WAGES

OVER ONE MILLION FUJIAN WOMEN WORK IN SERVICE TRADES

OW310821 Beijing XINHUA in English 0642 GMT 31 Aug 85

[Text] Fuzhou, 31 Aug (XINHUA)--More than a million housewives have found jobs in Fujian Province's service sector over the past year or two, a provincial women's federation recent meeting here was told.

Most of these women are engaged in household services, such as sewing, washing, food preparation and escorting children to and from school, or work in nurseries, kindergartens and shops. Private businesses have employed 300,000 women.

For many years, working parents in Fujian faced difficulties in daily life because of a shortage of such services, while many women were unemployed.

The federation in the province's capital, Fuzhou, organized 3,000 women peasants to operate household service stations in 23 urban communities to solve problems faced by working couples.

More than 7,000 children and babies in Siming District, Xiamen City, are looked after by 446 nurseries and kindergartens set up by 2,000 women.

To boost employment opportunities, the federation has run cooking, sewing, photography and child-care courses for 90,000 women since last year.

At present, Fujian's service industry generates 22 percent of gross provincial output value--two percent above the national average, said Fang Jing, vice-chairwoman of the federation.

"But there is still great potential for more jobs for women in Fujian's service sector," she added.

CSO: 4020/346

TRANSPORTATION

PRC SHIPPING WITH U.S. STEADILY INCREASING

HK190238 Beijing CHINA DAILY in English 19 Aug 85 p 2

[By Raymond Chen]

[Text] New York--China Ocean Shipping Company (COSCO), which has been playing an important role in China's growing trade with the rest of the world, is expecting a 25 percent increase in transport of its China-U.S. routes this year.

According to Chang Senchang, chief representative of COSCO's New York area office, the volume is expected to reach 50,000 containers.

Since 1979 when the first COSCO ship called at a U.S. port in 30 [word indistinct], two-way transport has been steadily expanding.

The state shipping company, which ranked the 12th in the world last year, now operates nine ships calling twice a month at Los Angeles, San Francisco and Seattle on the west coast, at Houston, Charleston and New York on the south and east coast.

COSCO has also begun to undertake third-party consignments on its U.S. routes. Last month, Chang said, COSCO began a twice-monthly service between Hong Kong and the west coast of the United States.

Of COSCO's nine ships operating on U.S. routes, six are newly-built, fully containerized vessels with a capacity ranging from 1,200 to 1,700 standard containers.

Chang said he is optimistic about business expansion even though the world's shipping business is generally in a slump.

"First of all, COSCO will continue to benefit from the expansion of Sino-U.S. trade," he said. "If we can catch a slightly bigger portion of goods traded between the two countries, our business will increase dramatically. We have the advantage of offering direct service at reasonable rates.

Chang admitted that COSCO ships have suffered delayed arrivals due to "congestion at Chinese ports." COSCO ships carry Chinese crude oil, oil products, minerals, textiles, food and machine tools to the United States and carry back American wheat, synthetic fibres, wood, pulp, machinery and aircraft.

TRANSPORTATION

DALIAN PORT RESUMES OPERATION AFTER TYPHOON

OW221950 Beijing XINHUA in English 1928 GMT 22 Aug 85

[Text] Dalian, 22 Aug (XINHUA)--Dalian, China's biggest foreign trade port, resumed full operation early today after the typhoon attack on 19 August.

One hundred and fifty-two Chinese and foreign ships, then berthed at the port when typhoon Mamie was sweeping across the city, are safe and sound, a port official said. Facilities and goods on the wharfs received no serious damages.

But a Philippine boatswain on a Panama cargo vessel was severely injured, when he was trying to fasten steel products on board. He died later in the hospital.

All ships were warned 24 hours before the typhoon came and were directed to leave the wharfs for the anchorage.

The official attributed the fine ending to prompt measures, well-organized evacuation work and cooperation between the port authorities and ship-owners.

CSO: 4020/343

TRANSPORTATION

FUJIAN PROVINCE BUILDS FOUR MORE BERTHS

OW191102 Beijing XINHUA in English 1041 GMT 19 Aug 85

[Text] Beijing, 19 Aug (XINHUA)--Four new berths for accommodating 10,000-ton vessels have been completed in Fujian Province, southeast China, today's INTERNATIONAL BUSINESS reported.

The coastal province has 174 berths with an accumulated handling capacity of nine million tons.

Coast extends 3,300 kilometers in the province. There are another five port projects under construction, including two 3,000-ton berths and two 2,000-ton berths.

The province plans to further develop port facilities to form a network of marine transport so as to meet needs of construction of the Xiamen Special Economic Zone and growing international economic exchanges, according to the provincial authorities.

CSO: 4020/343

TRANSPORTATION

JIANGSU EXPANDS TRANSPORT TO HANDLE FOREIGN TRADE

OW140957 Beijing XINHUA in English 0631 GMT 14 Aug 85

[Text] Nanjing, 14 Aug (XINHUA)--The rapid increase in foreign trade over the past few years has made Jiangsu Province expand its transport system, a local official said here today.

In an interview with XINHUA, Ye Jian, deputy director of the Provincial Bureau of Foreign Economic Relations and Trade, said that the province exported 848,000 tons of goods in the first six months this year, 16 percent more than in the same period of last year. It imported one million tons of goods, up 29.1 percent, through its three major ports.

Jiangsu is one of China's most economically developed provinces, and its total industrial and agricultural production output value has ranked first in the country over the past four years. Its total volume of exports last year climbed to fifth place in the country from sixth in 1983, after Liaoning, Guangdong and Shandong Provinces, and Shanghai.

The policy of exporting to obtain more foreign exchange in order to import advanced technology has brought into play the initiative of the enterprises in Jiangsu.

As a result, the province produced 19.1 percent more goods for export and gained 26.5 percent more foreign exchange earnings a year between 1978 and 1983. The amount of goods for export and foreign exchange earnings went up by 5.9 percent and 8.6 percent more, last year respectively, on the basis of the 1983 figure.

Ye said Jiangsu used to rely on Shanghai Port to export its goods. Since the province opened three ports to foreign ships in recent years, four-fifths of its goods are shipped from here to more than 130 countries and regions.

The ports of Lianyungang, Nantong and Zhangjiagang have altogether ten 10,000 dwt [deadweight tons] berths and 12 berths under 5,000 dwt.

Nine new 10,000 dwt berths are expected to go into service later this year to meet the needs of the expanding foreign trade, Ye said.

CSO: 4020/343

TRANSPORTATION

SECTION OF QINGHAI-XIZANG HIGHWAY ASPHALTED

OW261454 Beijing XINHUA in English 1218 GMT 26 Aug 85

[Text] Xining, 26 Aug (XINHUA)--An 11-year, 770 million-yuan project to renovate the Qinghai-Tibet Highway, the highest in the world, was officially completed today, transport officials here announced.

A state examination committee accepted the work to asphalt a 560-kilometer section of the highway--formerly a sand and stone affair built on earth perennially frozen to a depth of 40 to 120 meters.

The 1,937-kilometer highway from Qinghai Provincial capital Xining to Lhasa, capital of Tibet, transpasses rivers, deserts and grasslands on the "roof of the world" averaging 3,500 meters above sea level.

The renovation of the highway is considered a major breakthrough in the studies of cryopedology.

China's permafrost areas total 2.5 million square kilometers, half of which are on the Qinghai-Tibet Plateau.

XINHUA will issue a separate story on the renovation of the highway and other achievements in the study of cryopedology.

CSO: 4020/343

TRANSPORTATION

WORK UNDERWAY TO LINK XINJIANG WITH EAST

OW210338 Beijing XINHUA in English 0240 GMT 21 Aug 85

[Text] Urumqi, 21 Aug (XINHUA)--Work is now under way to extend the 3,561 kilometer railway from east China's coastal city of Xinhailian to Urumqi, capital of Xinjiang Uygur Autonomous Region.

The first phase of the extension project, a 240-kilometer line from Urumqi to Usu, will be completed in 1988. Then it will extend further westward to eventually join a Soviet railway at the Alataw Pass in the Bortala Mongolian Autonomous Prefecture.

"We are looking forward to an earlier completion of the railway, which is expected to help boost trade between Xinjiang and Central Asia, Middle East and Europe," an official from the Mongolian-Kazak dominated prefecture told XINHUA. "It will bring prosperity to us."

The Ministry of Railways shoulders half of the 200 million yuan investment on the Urumqi-Usu line, the second being built in the 1.66 million square kilometer-region in recent years. The rest is made up by the local government and the Xinjiang construction and production corps.

The first line, joining major stops in the ancient silk road such as Hotan and the Turpan Depression, was partially completed last year.

Xinjiang now depends on a combination of central and local funds to develop transport. "We used to rely completely on the central government for that purpose," said Tohuti Sabil, vice-chairman of the regional government.

The new approach seems to have paid off, according to the Uygur official. A network of roads totalling 24,000 kilometers now radiates from the regional capital to all cities and counties and 70 percent of the towns in the region.

Except for major highways, most of the local roads were built with local funds.

Two mammoth mountain ranges, the Altays and Kuluns, snakes through the region in the north and south, respectively. The Tianshan Mountains cut the region into two halves, forming two deserts, the Taklamakan and Gurbantunggut. "Transport, highways in particular, is one of the top priorities for Xinjiang's economic development," Tohuti said.

Now the region has four major highways going to the Sino-Soviet and Sino-Pakistan borders. The Urumqi-Hotan Highway around the Taklamakan Desert is 1,984 kilometers long.

Xinjiang has 11 airports, of which four are being expanded to handle Tridents and Ilyusin-62's.

CSO: 4020/343

TRANSPORTATION

INDIVIDUAL TRANSPORT ENCOURAGED IN XINJIANG

OW230746 Beijing XINHUA in English 0649 GMT 23 Aug 85

[Text] Urumqi, 23 Aug (XINHUA)--A series of policy measures, including preferential tax rates, have boosted individual highway transport businesses in Xinjiang to supplement government companies.

Peasants transport businesses now pay a business tax of up to seven percent, compared to 55 percent by government transport companies. Buses, mini-buses, trucks, tractors as well as oil and parts and accessories are now available on the open market under a 1984 decision of the Xinjiang Uygur Autonomous Regional Government.

"These used to be regarded as means of production and, as such, were not sold to individual citizens," said Tuohuti Shabier, vice-chairman of the regional government.

Peasants throughout the region now own 15,000 vehicles for passenger and cargo transport, including buses, trucks, tricycles and wheeled-tractors, compared with 9,844 at the end of last year.

The multi-national region, with an area of 1.66 square kilometers, has 24,000 kilometers of highways radiating from Urumqi, the regional capital, to all cities and counties.

"But transport in the farming and pastoral areas is still difficult, hence the need to encourage individual transport," said Tuohuti Shabier.

"Peasants may attend government-run training classes to become drivers," Tuohuti said. "Nearly 4,000 such drivers graduated in the past year."

"But self-taught drivers can also get licenses if they pass the exams held by local government transport and public security departments," he added.

The regional government also encourages people to pool their money to build local roads. The investment is retrieved with an interest from road-maintenance fees paid by the drivers.

The policy seems to have paid off in Hotan on the southern fringe of the 324,000 square-kilometer Taklamakan Desert. The Uygur-dominated area now

has 3,256 kilometers of roads, extending to most of the 170 villages there.

Donkeys and camels used to be the chief means of transport in Hotan, which was a major stop on the silk road linking ancient China with Central and West Asia.

"In the past I had to ride for three days on donkeyback to cover the 94-kilometer journey from my village to the county town," one peasant in Smawat Village told XINHUA. "Now I do it in two hours by bus."

CSO: 4020/343

TRANSPORTATION

NEI MONGGOL STEPS UP EFFORTS TO ENCOURAGE NAVIGATION ON HUANG HE

HK220601 Beijing CHINA DAILY in English 22 Aug 85 p 3

[Text] Inner Mongolia is stepping up its efforts to encourage navigation in the Yellow River, which stretches through the region for nearly 850 kilometres, CHINA TRANSPORTATION JOURNAL reports.

The local government has drawn up a programme for opening the river to traffic, section by section. By 1987, it plans to make 283 kilometres navigable, so that boats can sail from Wuhai to Bayannur League, and from the City of Baotou to Lama Bay. The volume of river freight is estimated to reach 6.3 million tons by 1990.

Inner Mongolia has a long history of navigation along the Yellow River, which runs about 5,464 kilometres from west to east in North China. But for various reasons, river traffic stagnated after a short boom in the 1950's.

To restore navigation, the region's Communications Transportations Bureau organized a survey of the river, which showed that it is highly navigable. It is generally 150 to 500 metres wide and two to four metres deep. The reserves of major ores along the river basin have been verified at 144.7 billion tons; 142.5 billion tons of this is coal.

But these rich resources have not been fully exploited because of the shortage of transport. At present the river route is hampered by a number of shoals and sluice gates.

However, problems of organization and finance have to be solved before restoration work can begin. A management organization has to be set up and at least 37 million yuan found to start the first phase of the project.

CSO: 4020/343

TRANSPORTATION

SHANXI OFFICIAL DISCUSSES DEVELOPMENT PLANS

OW221910 Beijing XINHUA in English 1854 GMT 22 Aug 85

[Text] Taiyuan, 22 Aug (XINHUA)--China's major coal producing province of Shanxi will mainly concentrate on developing transportation facilities in the coming five years so as to ship more coal out of the province.

Vice-Governor Bai Qingcai in a recent interview said that the province expects the strain on the transportation facilities to be eased by 1987 but the problem will continue to receive priority attention throughout the next five-year plan period (1986-1990).

Over 90 percent of the province's transport capacity is being used now for shipping the coal out of the province, but still 30 million to 40 million tons are piled up at the pit mouths.

The vice-governor was discussing the six focal areas of economic development for the province, adding that foreign cooperation is welcome. Apart from the construction of transport facilities, the province will also seek foreign funds, technology and equipment to develop water resources, power, agricultural processing and the building materials industry, which are lagging behind other sectors. Expansion of education will be another area the province hopes to strengthen in the coming five-year period.

The strained situation with regard to the transportation, the vice-governor said, may be eased after 1987 when the electrification and double-tracking of seven major trunk railways are completed and the super-heavy-duty railway from the City of Datong in Shanxi to the coal port at Qinhuangdao, Hebei Province is put into service.

In the next five years, the vice-governor said, the province plans to build ten highways and five local narrow gauge railways.

The state has decided to make Shanxi and part of Inner Mongolia a major center for coal, heavy industry and chemicals so that it will become a "powerhouse" for China's modernization drive.

Fast development of industry and agriculture in recent years had greatly drained water resources. The province plans to divert water from the Yellow

River. This is a gigantic project aimed at sustaining the expected faster development of industry and agriculture over the next five years.

In addition the province will make full use of its coal resources to build a number of thermal power stations between 1986 and 1990 which will provide more electricity for power-short southern Shanxi.

Other fields in which foreign cooperation is welcome include processing of agricultural and side produce, especially potatoes which are being produced in abundance. The development of the building materials industry such as cement, marble, porcelain tiles, rolled steel and shaped aluminum materials is also on the agenda to prepare for an economic take-off beginning from 1990.

CSO: 4020/343

TRANSPORTATION

MOUNTAIN PEASANTS ENGAGING IN TRANSPORT

Xi'an SHAANXI RIBAO in Chinese 8 Jun 85 p 1

[Article: "Invigorate the Economy, Benefit the Country, Bring Prosperity to the People; 6,700 Peasant Households in Shangluo Refecture Engaged in Transport"]

[Text] Comment by the Central Committee Secretariat Rural Policy Research Center in the "Village Work" Newsletter, Vol 2 No 11:
The main reason so many mountain people are poor is because goods produced there cannot be transported out and made commercially available, and goods needed cannot be shipped in, creating a stagnant economy.

To turn this situation around, we need to rely at once on the development of transportation enterprises, of state-run commercial enterprises, of supply and marketing cooperatives, and on the development of transport activities among the masses. The latter has a more tangible impact and produces faster results, as demonstrated by the development of transport households in Shangluo Prefecture. We should open up mountain areas and permit people from the plains to go in and engage in transport business. To stimulate the mountain economy, peasants there should actively pursue business opportunities by transporting their products down off the mountains and bringing industrial goods back up the mountains. Concerned units should make it more convenient for transport households. Foolish behavior such as leaving produce to rot on the mountains rather than allowing it to be shipped out can no longer be tolerated.

The peasant-run transport business in Shangluo Prefecture is booming. At the end of 1984, some 6,700 households and 8,500 persons were engaged in this business and 10 million yuan worth of goods were transported during the year. Peasants in the prefecture engaged in transport have expanded activities from market towns and main highways to remote villages. The product mix has been broadened from agricultural by-products, clothing and basic necessities to industrial commodities and items used in production. Transport networks have stretched from throughout the district and the province to neighboring provinces of Henan and Hubei and a dozen other places such as Shanghai, Guangzhou, Xinjiang and Shenzhen. Transport methods have advanced from mere shoulder poles and push carts to large vehicles such as tractors and trucks; some even

use the railroad. Peasants throughout the prefecture now possess 280 vehicles. Occasional business trips have evolved into year-round occupations. Of 2500 persons engaged in transport in Shanyang County, 1458 households have obtained official business permits and engage in transport business throughout the year. Another 1090 engage in seasonal transport activities.

By engaging in transport, peasants in Shangluo Prefecture have brought benefit to both themselves and the nation by: 1) Opening up markets for local products, boosting industrial development in villages and towns: According to incomplete statistics, peasants in Shanyang County were instrumental in shipping out 9000 tons of handmade paper, straw rope, charcoal and bamboo and wooden products worth 2 million yuan in sales value for rural enterprises 2) Facilitating the process of buying and selling to make production and life easier: Danfeng County grows bountiful crops of persimmons. With too much to eat, many go unwanted and are left to rot. Last year, however, 60,000 jin were shipped out, turning the fruit into an actively traded commodity. At the same time, vegetables and daily necessities from the central plains of Shaanxi were shipped in a steady stream up into the mountains 3) Constructing bridges and repairing roads so that peasants can come into towns more easily: At present, 146 households in Shanyang County are working or conducting business in towns; business is booming, management is sound and incomes are impressive, strongly attracting peasants from the surrounding areas, spurring a change in employment opportunities for excess farm labor, and opening an excellent avenue for guiding peasants in the development of tertiary industries.

12888

CSO: 4006/821

TRANSPORTATION

BRIEFS

NEW HIGHWAYS IN 5-YEAR PLAN--With the approval of the Ministry of Communications, the province will build an express highway between Lingtong and Xingping, and a Grade 1 highway between Tsanyuan and Tongchuan. The two highways have been listed as projects of the Seventh 5-Year Plan. The express highway between Lingtong and Xingping will be built in two phases. The section between Lingtong and Xian will be built first. The provincial highway surveying and designing institute is now doing surveying and designing work. The design plan is scheduled to be completed at the end of September. [Text] [Xian Shaanxi Provincial Service in Mandarin 1130 GMT 16 Aug 85]

NEW AIRLINE MAKES INAUGURAL FLIGHT--An inaugural flight from Lanzhou to Tianshui, operated by Gansu's Lantian Aviation Joint Service Company, was made on 15 August. Present at the inauguration ceremony were Vice Governor Hou Zongbin; Li Xibo, deputy chief of staff of the air force of Lanzhou Military Region; Li Jingwai, political commissar of the provincial armed police; and Ma Jinrong, vice mayor of Lanzhou. Hou Zongbin cut the ribbon. At 10:10, our correspondent traveled on the first flight to Tianshui with the inauguration delegation, arriving there after 50 minutes. The Lantian Aviation Joint Services Company is a service-style enterprise owned by the whole people, operated with the assistance of the air force. The local authorities have chartered aircraft from the air force for passenger and cargo flights between Lanzhou and Tianshui. The company has set up business offices in these two places. The provincial civil aviation administrative bureau provides guidance for its business. The opening of this route is bound to play a positive role in promoting tourism and economic development in the province. [Excerpts] [Lanzhou Gansu Provincial Service in Mandarin 2300 GMT 15 Aug 85]

GUANGDONG CITY BUILDS AIRPORT--Meixian City held a foundation-stone-laying ceremony this morning for a civil airport and then started the project. The airport is 15 kilometers from Meixian City proper, occupying an area of 1,176 mu. Its design was undertaken by the design department of the Civil Aviation Administration of China. The airport is expected to begin operation in April of next year. After completion, the airport will be able to accommodate Boeing 737s and medium-sized airplanes. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 20 Aug 85]

SHANGHAI PORT CONGESTION--Shanghai, 20 Aug (XINHUA)--In the past month and more, the Shanghai Port has successfully taken the first emergency steps to ease congestion. As of today, the number of foreign trade ships at the port has been reduced from 173 to 142. The port has scattered the shipping of 2.94 million metric tons of goods, and 1.93 million metric tons of coal. The volumes of coal and other goods stored at the port have dropped by 40 and 3 percent, respectively. The expected target has been fulfilled in the main. [Text] [Beijing XINHUA Domestic Service in Chinese 1608 GMT 20 Aug 85]

NEI MONGGOL HIGHWAY BRIDGE--On the morning of 13 August, a ceremony for opening to traffic the Lamawan Huang He highway bridge in Nei Monggol Autonomous Region was held. Bu He, chairman of the regional government, and Qian Fenyong, deputy secretary of the regional CPC Committee, cut the ribbon at the ceremony. As a key junction between Ulanqab League, Ih Ju League, and Hohhot City, Lamawan Huang He highway bridge is located between Xiaoyushuwan Village in Qingshuihe County of Ulanqab League and Qianfangzi village of Ih Ju League. The bridge is one of the preceding-stage projects for developing Zhungeer coalfield as well as the third highway bridge spanning the Huang He in our region. The bridge is 416.42 meters in length and 12 meters in width. [Summary] [Hohhot NEIMENGGU RIBAO in Chinese 15 Aug 85 p 1]

LIAONING NEW RAILWAY--Construction of Liaoning Province's first local railway--the Chengzitan-Zhuanghe railway--is in full swing. This railway will be completed 1 year ahead of schedule and will open to traffic by next year. This 58.59-km long railway requires a total investment of 32.8 million yuan. Of this sum, 13 million yuan was allocated by the state and the rest was raised by the localities. [Summary] [Shenyang LIAONING RIBAO in Chinese 15 Aug 85 p 1]

THROUGH AIR ROUTE--Yinchuan, 3 Sep (XINHUA)--A Yinchuan-Beijing through air route opened today. Yinchuan is capital of Ningxia Hui Autonomous Region which is part of China's underdeveloped northwest. The route is expected to help boost Ningxia's tourism and trade with other provinces and abroad, according to regional officials. Yinchuan used to have three air routes to Lanzhou, to Beijing via Baotou and to Xian. [Text] [Beijing XINHUA in English 1248 GMT 3 Sep 85]

CSO: 4020/345

USSR'S EXPERIENCE IN WESTERN LOAN USE SURVEYED

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 5, 10 May 85 pp 13-16

[Article by Sun Youduo [1327 1635 5305]: "The USSR Uses Western Loans Aggressively But Prudently"]

[Summary] The aggressive but prudent use of Western loans has been a long-term Soviet strategy in its drive to establish external economic relations and develop its economy. The level of borrowing, which rises and falls in response to political conditions and domestic needs, has been in the ascendancy since the 24th CPSU Congress. From 1964 through 1982, the USSR obtained from the West a total of \$29.6 billion in loans. Its main creditors are France, Japan, West Germany, Italy, Britain, the United States and Canada, in that order.

Soviet borrowing in the West has the following characteristics. First, the USSR has timed its borrowing shrewdly to take advantage of favorable international circumstances and coordinate with domestic developments. It borrows particularly heavily when the West is economically distressed, which usually means the availability of a lot of idle funds, and when its national plan calls for massive investments in capital construction.

Second, despite its reliance on government loans, the USSR has also diversified its sources of credit. It prefers government loans, which make up about 60 percent of its total foreign debts, because they can be obtained on relatively favorable terms, including low interest rates and long maturing periods. Another reason is that the USSR believes that government-to-government dealings can shelter them from some of the risks of doing business with the West. It is the absence of official agreements with the U.S. Government which explains the traditional Soviet reluctance to borrow extensively in the United States.

Western commercial banks are important Soviet creditors, too, accounting for the bulk of the remaining 40 percent of Soviet loans. Soviet banks have established a complex web of relationships with Western banks and are heavily involved in Europe's currency market, foreign exchange transfers and short- and long-term borrowing. One area the USSR has largely shied away from, however, is syndicated loans, and it is only since 1958 that it has revived its credit relationship with Western companies.

A third characteristic of Soviet borrowing is its linkage with compensatory trade, which appeals to the USSR because, first, it frees it from the burden of paying cash, and, second, the long-term commitment by Western companies to buy Soviet goods effectively guarantees its ability to repay. Since the 1970's, Soviet loans tied to compensatory trade have accounted for one-third of all its unpaid debts owed to the West.

By borrowing in the West, the USSR has made good the shortfall in its domestic funds, expanded trade with the West, imported sophisticated technology and promoted resource developments and key construction projects at home. Technology import and resource development, in particular, have benefited tremendously from Western credits. The nation's top three auto manufacturing plants, for instance, were all built or modernized with Western loans and technology, and it is only because of these Western inputs that the USSR has been able to develop its natural resources so rapidly. Western loans have helped it exploit its natural gas, oil and forestry resources, to name a few. In addition, the USSR has used Western loans in emergency situations, for example, to balance its international accounts.

"Since 1984, the USSR has obtained three more loans totaling \$525 million from Western banks. On the whole, however, the Soviet drive to borrow from the West has lost much of its steam after the late 1970's. The reasons are complex, including Western sanctions in the wake of events in Afghanistan and the Polish crisis, and concern by some Westerners about Soviet indebtedness. Actually, the USSR had already cut down on its borrowing even before it invaded Afghanistan. The good credit standing it has always enjoyed, coupled with its abundant oil, natural gas and gold reserves, suggests that the country will not have much difficulty repaying its loans. In my opinion, what is more problematic is the economic results of its use of Western loans and its introduction of technology.

"1. Indigestion. A major problem besetting Soviet use of Western loans is the indigestion it has experienced in trying to assimilate Western funds and technology. This arises primarily from insufficient domestic funds, lagging domestic technology and a shortage of technically qualified personnel, as well as low labor productivity, flawed planning and mismanagement. Although the USSR has paid considerable attention to these problems and taken a number of appropriate measures, the results have not been satisfactory. Some joint ventures involving foreign capital have not been completed as planned and many engineering works have been postponed time and again; the Baikal-Amur Mainline was finished more than a year behind schedule. The completion of the Sayan Dam at the mouth of the Yenisei River has been deferred, and even when it is finished, it will be operating way below capacity because a supplementary energy project has been held up. The adverse political impacts and economic losses resulting from such project delays are only too obvious.

"2. Some projects are too large and too slow in recouping the initial investments. The USSR has a traditional penchant for big projects, but it has run into difficulty in seeking Western financing for some of the larger ones. They are high-risk projects because of the huge sums of money involved

and the long maturing periods of the loans. The West estimates that loans for projects like the Yakutsk natural gas liquefaction project which requires from \$7 to \$8 billion, will take at least 15 years to be repaid, which is longer than the maturing periods of both official and commercial loans. Moreover, large projects are often closely integrated with other engineering works. Should a single coordination or management error occur somewhere, the effects will be felt all the way down the line. Under these circumstances, even the USSR is often nervous about using Western loans.

"3. The compensatory form of financing has lost its vigor. The advantage of the compensatory contract method of financing for the USSR is that it gives it a measure of control over the means of repayment as well as providing it with a loan. But even compensatory trade has some drawbacks. First, the West is primarily interested in energy development, so the USSR has problems applying it to help its manufacturing sector. Second, the compensatory contract itself does not offer the Western creditor any incentives to lend since they have already obtained loan guarantees from the Soviet Government. We mentioned earlier that the compensatory contract in most cases consists of two agreements: an agreement by a Western company to provide technology, and an agreement by the Soviet side to resell the products manufactured with the technology provided. Legally the two agreements are independent of each other. Western banks may be willing to assume the credit risks of Soviet borrowers and the foreign trade bank, but they usually balk at taking on the commercial risks associated with whether the various parties concerned can live up to their commitments in the agreement relating to sales volume. As a result, the outlook for compensatory trade is not bright. By insisting on linking borrowing with compensatory contracts, the USSR is bound to be restricted in the way they can use foreign funds. Furthermore, upon fulfilling its end of the bargain by turning over a turnkey factory or several plants, the Western partner is interested in only the sale of products, and there is little incentive for it to modernize the technical processes of its Soviet partner. Even though the contract may include provisions for a continuous transfer of technology, the Soviet side often ends up getting second-rate technology. It can thus be seen that as a means of upgrading the country's technological standard, compensatory trade is of limited help.

"4. Export markets and direction. How much a nation should borrow abroad depends on its needs, and more important, its ability to pay back, which, in turn, depends mainly on its export potential. The USSR faces a number of problems in this regard. Given the inability of its manufacturing industries to establish themselves overnight in the international marketplace, the USSR has to fall back on the export of raw materials and primary industrial products such as steel, copper, timber, urea, polyvinyl chloride and polythene, etc. The West has only a minor interest in these raw materials and products (exceptions being oil and natural gas,) while developing nations, particularly oil-exporting nations, are shaping up as the Soviets' increasingly tough competitors in the West. For all these considerations, the USSR has no choice but to continue to give preference to the supply of raw materials to Eastern Europe. In a sense, therefore, export to Eastern Europe has become a constraining factor on increasing Soviet exports to Western

Europe. Also, the country faces a unique problem regarding the direction of its exports. While the basic thrust of its economic development is toward the east, that is, Siberia and the Far East, its export trade right now is predominantly western-oriented, primarily toward Eastern Europe, then Western Europe. In view of the fact that it is increasingly cost-prohibitive to ship resources from the eastern Soviet Union to the western part of the nation and beyond, the rational course would be to shift export toward the Pacific region. As the construction of the Baikal-Amur Mainline gets under way, this shift will assume increasing importance. It is foreseeable that the USSR will intensify its efforts to strengthen trade ties with countries in the Pacific region, but a real breakthrough is still some years away."

12581

CSO: 4006/827

Special Economic Zone

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TITLE: "Some Key Issues in the Economic Development of Shenzhen SEZ"

SOURCE: Beijing DILI XUEBAO [ACTA GEOGRAPHIC SINICA] in Chinese No 2, Jun
85 pp

TEXT OF ENGLISH ABSTRACT: Shenzhen Special Economic Zone [SEZ], which covers an area of 357.5 sq km with a population of 160,000 (1983), is the earliest in its exploitation, the largest in size, and the quickest in its economic development among the existing four special economic zones in China.

1. Geographic location is closely related to the development of the SEZ. The city's adjacency to Hong Kong, its vast expanse of land for construction, sufficient supply of power and water, rich farm produce and developing transportation and communications, particularly its closeness to the oilfields under exploration at the mouth of the Zhu Jiang, provide Shenzhen SEZ with extremely favorable geographical conditions for economic development.

2. Industry is the core of the SEZ economy. Consequently, accelerating imports of technology in industry is the key point in construction of the zone. The priority of its industrial development should focus on the household electronics industries such that they may coordinate with the rapid development of those industries recently mushrooming in the Zhu Jiang delta area nearby, forming the biggest center of the household electronics industry in China. Meantime, industries such as building materials, foodstuffs, textiles, costumes, furniture, fodder, and processing of daily necessities, should also be appropriately developed. With the opening up of the oilfield at the mouth of the Zhu Jiang, there are bright prospects for the development of petrochemical works and the sea-oil service industry.

3. Agriculture is an important component of the SEZ economy. However, its foundation is still weak. From now on, emphasis should be placed upon development of horticulture, poultry, and products so as to build Shenzhen into a supply base of live and fresh farm produce and non-staple food for the whole city as well as for Hong Kong.

4. Shenzhen has a 248-km-long coastline with several natural deep-water bays, which have advantages for the development of sea transportation. Shekou port is now completed and Chiwan port is under construction. Judging from its geographic location, natural conditions, communications with the interior and a comprehensive comparison of relationships between a port and a city, Mawan Bay Chiwan Bay [sic] is regarded to have better port conditions, and it is advisable to build it first. Feasibility studies on Yantian deep-water port in Dapeng Bay on the eastern coast are now being conducted.

5. Shenzhen has abundant resources for tourism, which is a newly-developed business with bright prospects. Although the development of tourism requires imports of modern facilities, the area for tourism in Shenzhen can never be developed into just a reproduction of certain scenic spots abroad. In terms of housing, playing, eating, and shopping, Chinese styles and traditions and the strong local colors should be consistently maintained. Shenzhen should become a "shopwindow" and an "epitome" of quintessential China.

6. Determining the size of urban development (including the population and the scale of land to be used) is the essential prerequisite for city planning. The planned population in Shenzhen by 2000 is 800,000 and the land to be used is 110 sq km. But there are still different views on the proposed plan. Judging from an overall analysis of all the factors relating to the city's geographic location, its attractiveness to the interior, natural resources, land capacity and developing economic efficiency, convenient communications with foreign countries, water and power supplies, original economic foundation, source of population, and relationship with nearby cities, it is predicted that a population of 500,000 by 1997 is relatively reasonable. An increase to 800,000 to 1 million is possible in the future.

CSO: 4011/34

HONG KONG ECONOMIC TRENDS

OPTIMISM FOR HONG KONG ECONOMY IN TRANSITIONAL PERIOD

Guangzhou GANG AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese No 5, 25 May 85 pp 2-4

[Article by Chen Kekun [7115 0668 3540]: "Hong Kong's Economy During Period of Transition"]

[Text] The joint declaration of the Chinese and British governments on the Hong Kong issue has already been signed and will go into effect after the exchange of instruments of ratification before 30 June 1985. The period between this and 30 June 1997 is Hong Kong's transitional period.

To predict Hong Kong's economy during the transitional period, we need to conscientiously study and discuss its economic characteristics, contents and trends of development.

First, generally speaking, because the Chinese Government has clearly stipulated that Hong Kong will continue to maintain the capitalist system for 50 years after 1997, Hong Kong has been and will be implementing the capitalist system before the Chinese-British joint declaration becomes officially effective, during the transitional period and in the 50 years after 1997. Judged by this point, there is nothing different or special about the transitional period as compared to the two periods before and after it. It only functions as a link between the two periods to continue to maintain Hong Kong's stability and prosperity and effect a smooth transition from British rule to the administration of Hong Kong by the Hong Kong people.

Therefore, during the transitional period, Hong Kong will, as in the past, pursue previous economic principles and policies, maintain and develop its roles as an international industrial city, free trade port and international financial and shipping center, maintain and develop its foreign economic relations, ensure that it will take part in relevant international economic organizations and agreements and guarantee free capital and personnel exchanges, thereby guaranteeing its stability and economic development. However, the contradictions, problems and chronic maladies inherent in capitalism will also be unavoidable in the course of Hong Kong's economic development. Therefore, it too must readjust economic policies and structure in a timely manner in accordance with objective reality and adopt necessary measures in view of various contradictions and problems to seek relief or

solutions. In this sense, it is correct to say that there is no difference between the transitional period and the two periods before and after it. However, we must not conclude from this that the transitional period seems to be irrelevant to the signing of the Chinese-British joint declaration. This is of course a misunderstanding. On the contrary, it is because of the common efforts of the Chinese and British governments that the problem of Hong Kong's future has been solved, that China has decided to practice "one country, two systems" and let Hong Kong continue to implement capitalism for 50 years after the recovery of Hong Kong's sovereignty and that all factors of stability and prosperity have been allowed to remain and continue to function in Hong Kong. In other words, it is the Chinese-British joint declaration that has made the period between now and 1997 a transitional period. The Chinese-British joint declaration defined the contents and meaning of the transitional period and stamped it deeply with the brand of transitional period. The transitional period is based on the goals set by the Chinese-British joint declaration from the very beginning.

Second, to take a closer look, the fact that the period between now and 1997 is referred to as a transitional period has clearly indicated that this period is not the same as the period before now when Hong Kong was under the administration of the British Government, nor is it the same as the period after 1997 when the Hong Kong Special Administrative Area is under the administration of the Hong Kong people. It is a transitional period between the former and the latter. Therefore, economically speaking, Hong Kong implements capitalism in all three periods; politically speaking, before the sovereignty is transferred, Hong Kong remains a place controlled and administered by the British Government. But, since the Chinese-British joint declaration was signed and the problem of Hong Kong's future was solved, the method and contents of the administration has somewhat changed in nature and as time passes and the year 1997 draws near, such a change and difference will become more and more prominent.

If there is no change in economic situation before and after the transitional period because of the implementation of the capitalist system, all the present Hong Kong Government needs to do under various pressures created by domestic economic development and foreign economic situations is to follow old rules, maintain stability and promote prosperity; therefore, it need not digress far from the original tracks. But, the political situation is a whole new ball game. To transfer British rule to administration by the Hong Kong people, a variety of political systems can be designed. From the green and white paper of the representative system to discussing relevant political systems, from the election of regional parliaments to the public election and appointment of the members of legislative bureaus, from having more Chinese engage in politics to having more Chinese take high-ranking posts in the government; and from expanding democracy to carrying out various political activities--there is great flexibility. The regional parliamentary election of the Hong Kong area including Hong Kong, Kowloon and the New Territories held in March 1985 is a manifestation of this point. In fact, we should also recognize that the Hong Kong Government now has a much better chance of making efforts and maneuvering in political systems than in the economy.

Of course, this does not mean that the Hong Kong Government can do whatever it wants. On the one hand, the Chinese-British joint declaration on guaranteeing Hong Kong's stability and prosperity has already been signed. It is a blueprint and foundation for new Hong Kong. On the other hand, a Chinese-British joint liaison group has to be formed in accordance with the joint declaration to guarantee the effective execution of the declaration. The Chinese Government should also formulate the basic law of the Hong Kong Special Administrative Area on the basis of respecting the interests of the Hong Kong people and extensively soliciting their opinions and suggestions. The basic law will serve as a foundation for the administration of Hong Kong by the Hong Kong people. In the final analysis, the transitional period is to ensure a smooth transfer of the sovereignty of Hong Kong, establish the Government of the Hong Kong Special Administrative Area and ensure that Hong Kong is administered by its own people according to the basic law. Therefore, all changes during the transitional period should not deviate from this highest principle.

No matter what, during the transitional period, there will be growth, decline and other changes in the local political power of Hong Kong because ending more than 100 years of British colonial control over Hong Kong is after all a task of epoch-making significance. Changing the previous administrative structure to let the Hong Kong people administer Hong Kong 12 years from now is not a easy job either. During this period, various phenomena will occur. There might be explorations in the course of advance or pursuits of good intentions. There might be nostalgia or intentional challenge. They are complex and all mixed up. Objectively speaking, these phenomena are also manifestations of the interests and wishes of different strata and interest groups. The ups and downs in the political situation will ultimately be reflected in the economy. New relations will be established between foreign and Chinese investors, between British and other foreign investors, among Chinese, foreign and overseas Chinese investors, between industrialists and businessmen and the ordinary people, between employers and employees, between the rich and the poor, between Chinese and foreigners, and so on. There will be numerous cases of turbulence, disintegration, reshuffling and integration. If these are unavoidable political and economic phenomena during the transitional period, it is not exaggerating to say that the transitional period is characterized by a course filled with the struggle of forces from all fields.

Third, the most important characteristic of the transitional period is the relationship between Hong Kong and the mainland. As China's inherent territory, Hong Kong has always had unbreakable relations with the mainland. Although Hong Kong was temporarily away from the embrace of the motherland because of its lease and cession in the past century or so, the countless links between Hong Kong and the mainland have never been severed--this would have been impossible. Nor could British control have changed this situation. Hong Kong's growth and progress and its position and role in the world economy have always been inseparable from the support and assistance of the motherland in all fields. Specifically, during Hong Kong's economic recovery following World War II and its subsequent economic takeoff, mainland China gave Hong Kong great support and assistance by guaranteeing a stable political environment and providing numerous economic conditions (such as funds,

personnel, labor, raw materials, means of subsistence and technology and equipment during the initial period of industrialization). This is recognized by everyone. There were ups and downs and complications in the course of Hong Kong's economic development after World War II, but generally speaking, the mutually beneficial economic and trade relations between Hong Kong and the mainland have been improving, expanding and developing continuously.

In particular, following the smashing of the "gang of four," China saved the national economy from near bankruptcy and placed the four modernizations on the agenda. At the end of 1978, the 3d Plenum of the 11th CPC Central Committee decided to shift the work of the whole party and nation to economic construction and implement the policy of invigorating the domestic economy and opening up to the outside world. Since then, economic and trade relations between the mainland and Hong Kong and between China and the world have all entered a new stage of development. The effective implementation of China's open door policies has not only strengthened economic cooperation between Hong Kong and the mainland but has also given full play to Hong Kong's role as a link between the mainland and foreign countries due to its historical role and geographical environment. China's implementation of the open door policies has been universally conducive to Hong Kong's stability and prosperity. The history of the late 1970's and the early 1980's has proved this point. Although during the early 1980's the Western economy witnessed the biggest economic recession since the 1930's and Hong Kong was shaken by its future problem, Hong Kong's economy still managed to turn danger into safety and has grown steadily. A very important reason is that the development of economic construction on the mainland, the implementation of the open door policies and the expansion of economic and trade relations between the mainland and Hong Kong and between China and foreign countries have created many lucrative business opportunities for Hong Kong. Former governor of Hong Kong Maclehoose said that Hong Kong should "look toward the north," thus vividly indicating the location of the interests of Hong Kong's development.

Now that China and England have signed the joint declaration on the Hong Kong issue, relations between China and England and between the mainland and Hong Kong have entered a brand new stage. If in the past there was a gap in the relations between the mainland and Hong Kong, it has now been narrowed and is getting narrower every day. If in the past the British Government was totally responsible for the administration of Hong Kong, now, on the one hand, a joint liaison group has been established to supervise and create conditions for the execution of the joint declaration; on the other hand, the current British regime obviously must make preparations for the transfer of administration to the Hong Kong people. Therefore, we should not think that everything seems to remain unchanged, because in fact changes have already occurred in the relations between the mainland and Hong Kong and between China and England. Such changes will continue to increase as 1997 draws near.

There is no doubt that the economic and trade relations between the mainland and Hong Kong will develop as each day passes in the transitional period. Therefore, in order to guarantee Hong Kong's stability and prosperity, ensure the recovery and exercise of Hong Kong's sovereignty, allow Hong Kong to maintain its capitalist system for 50 years after 1997 and enable the mainland to achieve success in the four modernizations and the structural economic

reform, it is only natural for the mainland to treat as a priority issue during the transitional period the matter of how to protect, support and use Hong Kong .

Judged by the above three characteristics, during the transitional period between now and 1997, Hong Kong will continue to pursue the previous free economic policies and enable Hong Kong's economy to develop further toward modernization, advancement and pluralization. Internally, Hong Kong should readjust its economic structure to promote advanced manufacturing industries--namely develop from labor-intensive industries to capital- and technology-intensive industries; expand foreign trade to pluralize markets; strengthen its role as a financial center; and further develop building, real estate and tourism industries in a comprehensive manner to bring about the prosperity of the whole economy. Externally, Hong Kong should deal with the protectionism of industrial countries and the competition of other countries and areas and continue to develop its flexibility and adaptability to achieve continuous development in its economy under unfavorable conditions. The economic cycle of the capitalist world can directly affect Hong Kong's economy, which is dependent on the world market. This must be carefully considered and estimated. But as long as we continue to develop the growth and development factors of Hong Kong's economy, there is a guarantee for the growth of Hong Kong's economy. Facts have proved that since the problem of Hong Kong's future was successfully solved in 1984 and because of the Chinese-British joint declaration and China's clear and definite principles and policies in the Hong Kong area, the Hong Kong people have been reassured and political and economic conditions have taken a turn for the better. In the last few months, the Hong Kong dollar has been stable, foreign trade, industrial production and orders for goods have increased, the real estate business has revived, the stock market has gone up and the economic environment in which making money is the motive force has again been restored. Everybody is optimistic and believes that Hong Kong's economy will be better in 1985 than in 1984. In fact, if we can guarantee the effective execution of the Chinese-British joint declaration, although there might be some complications and turbulence in the future course of development, the overall situation of Hong Kong will be stable and there will be continuous prosperity and economic development. This is an appropriate summary of Hong Kong's economy in the transitional period between now and 1997.

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HONG KONG ECONOMIC TRENDS

HONG KONG TAKEOVER OF OVERSEAS TRUST BANK DISCUSSED

Hong Kong JINGJI DAOBAO [ECONOMIC REPORTER] in Chinese No 24, 17 Jun 85 pp 7-8

[Article by Deng Shuxiong [6772 2885 7160]: "Government Regulation of the Banking System Should Be Strengthened"]

[Text] Should the Hong Kong Government take over the Overseas Trust Bank [OTB]? This question has been the focus of public discussions for the past few days. There are so many contradictory views among members of the Legislative and Urban Councils, academics, people in the financial circles, depositors and ordinary citizens that it is difficult to decide which is right. People in different circumstances naturally have different opinions. Those inclined towards laissez faire, of course, argue that banks should behave like any other business; they should obey the laws and be regulated by the market. If a bank is badly managed, it should be punished by the market. A market shake-up will help it regain its balance. According to this philosophy of economic liberalism--to which Hong Kong subscribes--there is no justification for the Hong Kong Government's decision to bail out a mismanaged bank, because it is blatantly unjust to the taxpayers to use their money to assume responsibility for a problem bank's liabilities. Moreover, a takeover is fraught with risks: should other banks run into similar problems in the future (not an impossibility given what happened to Hang Lung Bank 2 years ago), and the Hong Kong Government feels obliged to come to their aid, then the official monetary reserves are bound to be reduced drastically, which, in turn, will constitute a downward pressure on the Hong Kong dollar and ruin the local economy. Such is the argument of Prof Zhang Wuchang [1728 0063 1603] of Hong Kong University and Dr Song Enrong [1345 2837 1869] of Chinese University, who believe that the Hong Kong Government should not have taken over OTB.

What then would have been the right thing to do? Zhang Wuchang pointed out, "The Hong Kong Government should have let OTB go into liquidation, at the same time making known its support for other financially sound banks. Such a move may have damaged the interests of OTB depositors and investors, but it would have spared the government the burden of taking over its debts. Also, other financially healthy institutions would have remained unaffected by the OTB affair." He also said, "The government should be faulted for never clearly defining the extent of its responsibility to a bank" (see XINBAO 10 June). In a commentary in the same newspaper, he wrote, "We suspect gross errors in the

bank's accounting and auditing systems and negligence on the part of supervisory officials. For this reason, OTB shareholders should get together, chip in to hire a lawyer and reserve the right to sue the government agency concerned and people involved in compiling and approving the OTB accounts."

In other words, let the depositors and investors suffer. The Financial Secretary and the Commissioner of Banking should take the blame and resign, and people who forged or examined the OTB accounts should be brought to justice.

The other school, comprising Prof Yao Yuqing [7437 7411 1987] of Hong Kong University, Dr He Xinji [0149 3512 1015] of Chinese University and myself, favors a government takeover. We believe a takeover is the only option open to the government at this critical juncture which can ensure the depositors' interests and reassure the public. Short of a government bailout, there will inevitably be another financial crisis.

In the absence of any alternative, unofficial members of the Legislative Council passed the takeover legislation. Zhang Jianquan [1728 7003 3123], however, bemoaned the fact that the non-intervention policy had been violated twice and urged the banks to discipline themselves. Liang Shuyi [2733 3219 1837] asked for a government guarantee that this scenario would not be repeated, and Li Pengfei [2621 7720 7378] pressed for tougher banking supervision. Deng Lianru [0772 5571 1172] demanded that people who had broken the law be dealt with accordingly, while Tang Jiarong [0781 1367 2837] expressed dissatisfaction with the way the Office of the Commissioner of Banking handled the situation. As there is not a single economist among the Legislative Councilors, there was no debate. An academic once took a poll on what Members of Parliament [MPs] and economists thought about the proposition that the pursuit of private profits through the market mechanism would lead to social (public and private) harmony. He found that while 80 percent of the economists agreed with the proposition, only 50 percent of the MPs did so, and the figure was even lower among liberal MPs. The poll results point up not so much a difference between thinkers and doers as their different interpretations of the market.

What kind of medication is a market shake-up? Does it cure a disease or merely control its symptoms? Let's take a look at the banking crisis of 1965 which led to an economic recession the same year, including a hefty deficit in government accounts. It was Hong Kong's first recession after World War II which was induced by internal factors and took place amid general world prosperity. The two recessions in 1975-76 and 1982-83, by contrast, were caused by an international economic crisis. Herein lies the reason why we must not just sit back and do nothing this time around. Some experts blame the 1965 crisis on excessively stringent banking regulations. However, this (assuming that we accept such an explanation) must not be seized upon as an excuse against banking regulation per se, but can only be used to underscore the importance of appropriate and flexible banking supervision.

As a unique element of production, workers are not robots; they may go slow or strike. Similarly, banks also differ from most production enterprises because they produce currency. (Admittedly only a central bank can issue currency, but

the banking system as a whole expands credit.) Currency is a very special commodity. It is the medium of all exchanges and a tool of wealth accumulation. Whatever its form or exchange rate happens to be, its value (external) is always determined by supply and demand. But our demand for a certain currency depends on how much confidence we have in it (among other things, of course). A crisis of confidence touched off the financial crisis of 1983, which need not be described in detail here. We will simply be putting ourselves at the total mercy of the market if we allow it to find its new equilibrium on its own, with no consideration given the effect on the sum total of social wealth (do not forget that currency is a financial asset and an important part of wealth) or the distribution of wealth (who will benefit from a financial crisis, immediately and in the long run? who will suffer?). No, this is not the omnipotent market at work, as some people say. This is surrendering ourselves to the market and letting ourselves be ruled by its invisible hand, instead of by the government, the public household (whether it is appointed, dictatorial or democratically elected). Answering reporters' questions at the mid-term economic report meeting in September 1983, Financial Secretary Bremridge remarked that the government would not intervene to shore up the Hong Kong dollar, which had been falling in the foreign exchange market, thus precipitating its further decline. We are not oblivious of the political nature of his remarks, but I find it hard to accept that he was committed to preserving the sanctity of the market, whatever that might require, and had no concern for the fate of the dollar. Now let's hear how Haddon-Cave explains active non-intervention (in a speech he made at the annual dinner of the Overseas Banking Association at the Guild Hall in the City of London on 1 Feb 1982):

"Intervention becomes necessary when market imperfections lead to monopolistic conditions. Or when the market overheats and cannot be reined in through normal mechanisms. Or when consideration for the public interests demands regulation and supervision. Under these circumstances, we will need to set up a control and regulatory framework through legislation. Intervention is also justified when the unbridled pursuit of private interests begins to adversely affect the overall economy and overall financial system."

It follows that regulating the banking system is justified in order to protect the public interest, which is beyond the ability of the market. As Haddon-Cave pointed out, the market is teeming with individuals consumed with the pursuit of private interests, adversely affecting the financial system as a whole. Bremridge has characterized the OTB crisis as a sequela of a sudden boom in the bank's business, but this only goes to affirm Haddon-Cave's theories. Before he retired, Haddon-Cave also voiced his support for the OTB takeover. We should consider his support not an ironic footnote to his career or his active non-intervention position, but a sign of his firm commitment to preserving the stability of the banking system.

Why preserve the stability of the banking system? Because currency is a tool linking together the past, the present and the future. We need a stable currency or a currency which varies within reasonable limits to calculate the costs and benefits of all economic activities at different points in time. If the value of a currency fluctuates violently, it will undermine the rationality and feasibility of economic decisions. It is unhealthy for any

economic activity to grow too quickly. Bremridge said that OTB recently experienced a sharp upturn in business. What kind of upturn? One generated by unguaranteed loans and loans with inadequate collateral, all made in total violation of the rule of prudence. The most important externality of the banking industry is currency stability and overall economic stability. We can thus see that the banking industry can both promote economic growth and bring about an economic collapse.

Haddon-Cave is an economist. The above excerpt from his speech serves nicely as a definition of the nature of the market. The market is a mere vehicle where supply and demand transactions take place. It is a means (whether it is the best means is something else), not an end, and nothing more. The magic of the market lies in its ability to give us an equilibrium effectively and quickly. Adam Smith's laissez-faire theories claim that society will benefit most when we unleash a group of profit-driven individuals in the market and leave them alone to compete among themselves. But his teaching fails to explain commercial fraud and crimes, including speculation and profiteering. Money talks and that is the only language the market understands. In the past, this society measured a person's achievements by his wealth (regardless of whether it be ill-gotten), and the only standards it followed were the amoral standards of the market.

The market must observe commercial ethics. Professional associations such as those of doctors and lawyers all observe a code of professional, ethical standards and tolerate no infringement. Economics is a social science, and society involves interpersonal relationships and is inseparable from value systems and value standards. This is what Keynes meant when he called economics a moral science. Confronted with a range of options, can we refrain from considering values? In making market efficiency their only criterion, liberal economists certainly have no use for any value systems or ethics and need not worry about justice or choice. But this is possible only in the ideal society, not the real world. I have said a lot here, but my only aim is to make clear one point, namely, modern economic society is a commercial society based on a currency economy. Currency stability and commercial ethics are equally important. The banking industry should be exceptionally cautious and conservative because its externalities have an immense impact. For the same reason, government must not neglect its watchdog duty.

We should learn from the way the Singapore Government polices its financial industry. The Hong Kong Government must not waste time making up its mind about the Deposit Insurance Fund. Interviewed on Asia-TV, Professor Yao even demanded that the government investigate the personality and mental state of people who sit on the boards of directors of banking institutions, a suggestion not without social implications.

I believe we should define the extent of government responsibility to banks, a task perhaps best left to experts in property economics. At the same time, we must also delineate the limits of the responsibility of the banking community to society. Should we take the responsibility of a limited liability company as the norm? What happens when yet another bank runs into financial problems? And what should we do when government runs out of free monetary reserves? Taking over troubled banks is no long-term solution. By assuming OTB's

commitments, the government has apparently issued a blank check to all mismanaged banks. The result is certain economic demise. But before that comes to pass, it will gradually drain us of our reserves and sap our economic vitality. Hence the suggestion by some people that the government should not have intervened. But the problem is that the financial crisis will not go away just because the government does nothing. Even with the takeover, there are already rumors that a number of banks are in trouble, forcing the Commissioner of Banking to come out and clarify the situation personally. So non-intervention is a sure recipe for instant death.

We ascribe no omnipotence to the government. Nor do we believe in randomly squandering our reserves, much less replacing the market with the government. I support the takeover out of consideration for Hong Kong's financial stability. This is both a long-term and short-term objective. It just will not do for us to ignore short-term readjustment costs in our anxiety to achieve long-term stability; today's financial crisis is a result of yesterday's lack of regulation. In a most pithy remark, a political and economic commentary in XINBAO said, "Nothing is more strange or ironic than the fact that the Financial Secretary, who should assume direct responsibility for the event, is now made chairman of the two banks and given expanded powers in order to remedy the wrongs of past inadequate supervision" (XINBAO, 8 June). Consequently, the government takeover should be only part of our response to the financial crisis. In addition, we should beef up bank supervision and regulation, in word and in deed, by setting up a deposit insurance system and discount window [tiexian chuang 6317 3807 4514] (discussed at length by Professor Yao and Dr He Xinji elsewhere in this issue). Both government and society should take it upon themselves to educate the banking community to impose self-discipline. All banks, large and small, should understand their impact on society and take commercial ethics seriously. Government should also familiarize itself with all banks and strictly prohibit any illicit transfers. Only such a three-pronged approach designed to make Hong Kong a sound financial center can help prevent the appearance of a third problem bank.

When unscrupulous merchants ran amok, we set up the Consumer Council. Unfortunately even here the law has many loopholes and consumers often fall helplessly prey to profiteers. Many people are now predicting a rash of commercial crimes before and after 1997 as profiteers try to make a quick buck by fishing in troubled waters before fleeing abroad to enjoy a life of luxury. What can the market do about this? What can a pure private property system do about this? What can-laissez faire economics, which recognizes only the profit motive, do about this? Our only hope is a return to the science of morality.

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CSO: 4006/742

HONG KONG ECONOMIC TRENDS

BANKS' SUPPORT FOR KA WAH BANK APPLAUDED

Hong Kong JINGJI DAOBAO [ECONOMIC REPORTER] in Chinese No 25, 24 Jun 85 p 1

[Editorial: "Support by the Hongkong and Shanghai Bank and the Bank of China for Ka Wah Bank Has Profound Significance"]

[Text] Over the past few days, people in the financial market have been unanimously praising the positive move by the Hongkong and Shanghai Banking Corp and the Bank of China to give joint support to Ka Wah Bank. They think that this cooperation has the desirable effect of stabilizing Hong Kong's financial system and promoting its stability and prosperity. Its implications are far-reaching.

One week ago, we were still reeling from the aftershocks of the Overseas Trust Bank [OTB] affair, although the crisis itself has basically been resolved. The market was full of rumors about the financial problems of a number of Hong Kong-licensed small and medium-sized banks, particularly Ka Wah Bank. These rumors did a good deal of damage: not only did they raise the specter of a run for the banks concerned, but they also put the entire banking system and financial market under severe strain. For a time people panicked, the stock market dropped sharply and, despite official statements that the rumors had no basis in fact, the uncertainty and apprehension continued its grip on Hong Kong and refused to go away.

Confronted with this pressure, Ka Wah Bank took the initiative to approach the Hongkong and Shanghai Banking Corp and the Bank of China to seek their support. After notifying and consulting with the government and the Office of the Commissioner of Banking, the two banks decided to jointly support Ka Wah Bank by giving it a huge standby credit to solve its cash flow problems. Their decision to support Ka Wah Bank was based first upon their consistent concern for the condition of Hong Kong's financial market and, second, the fact that Ka Wah Bank is a financially sound and well-managed concern. Its problems are intrinsically different from those of OTB and do not result from the bank's operations, but are cash flow difficulties caused by rumors plaguing the market in the wake of the OTB failure.

After the Hongkong and Shanghai Banking Corp and the Bank of China announced their decision in the evening on 17 June, the news immediately spread throughout the colony. Ka Wah Bank reopened as usual on 18 June after the

holiday, and no mass withdrawing or other untoward event occurred. The people regained their confidence, the financial market firmed up and the stock market, which had been declining for the past several days, also rebounded.

The timely decision by the Hongkong and Shanghai Banking Corp and the Bank of China to render joint support to Ka Wah Bank stabilized the financial market, reassured the public and was welcomed by all sectors in society. People see this step as one of profound implications.

First, it is a total affirmation of a mutual-aid spirit among members of the banking community, a precious spirit all the more needed at a time when rumors are rife and people are nervous. Banks like Ka Wah particularly deserve this cooperative spirit and support because their problems are rumor-induced and not related to their actual operations. As Hong Kong's two largest banks, the Hongkong and Shanghai Banking Corp and the Bank of China are all the more duty-bound to take the lead in promptly preventing the rumors from getting out of hand by quashing them at the source, thereby reassuring the public and stabilizing the financial market. The entire banking system and all banks, large, medium and small, stand to benefit from this act.

Second, the public totally reaffirms the status of the Hongkong and Shanghai Bank and the Bank of China, have confidence in them and place high hopes on them. Both banks occupy a special position in Hong Kong's banking system, charged as they are with the responsibility for preserving the stability and prosperity of the economy and Hong Kong's position as an international financial center. Their mere act of courageously coming to the rescue of a worthy bank at a critical moment was a shot in the arm for Hong Kong's financial market. The fact that it was a joint, cooperative move made their support doubly effective. Based on this instance of cooperation, some experts even suggest that the two local banks authorized to issue currency (Hongkong Bank and the Chartered Bank), the Bank of China, and the Foreign Exchange Corp of the Hong Kong government get together and consider jointly creating a crisis management organization to support problem banks and financial companies. Such an organization may achieve even more impressive results.

Third, people are particularly mindful of the implications of cooperation between the Hongkong and Shanghai Bank and the Bank of China in the transitional period and the role played by the latter. Although what happened between the three banks in the past few days was a commercial deal, a routine transaction in which two large banks bailed out a small bank, there is no denying the profound significance of this cooperation between the Hongkong and Shanghai Bank and the Bank of China as we embark on the transitional stage. This is because it fully reflects China's, Britain's and the Hong Kong people's desire for stabilizing Hong Kong's financial system and preserving its stability and prosperity, as well as their confidence and actions. The Bank of China's positive move, in particular, further underscores China's consistent determination to maintain Hong Kong's stability and prosperity and has won much praise.

Judging by these three aspects, people have evidently become more confident about Hong Kong's stability and prosperity. Of course, as an international financial center, Hong Kong needs more than the prospect of help when its

banks run into difficulty; it must also make sure that it banks do not get into trouble in the first place, or do so very infrequently. Consequently, it must continuously improve the financial system and increase the quality of its operations. The government should learn from the Hang Lung and OTB cases and strengthen its supervision over the financial system. The banks should exercise greater self-discipline, improve management and clean up their act. As for the citizens, they must give no credence to rumors and must not panic at the first sign of trouble. Only through concerted efforts involving all sectors in society can we ensure the basic stability of the financial system. And it is impossible to overestimate the significance of financial stability for Hong Kong's stability and prosperity.

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