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JPRS-CEA-85-090

15 October 1985

China Report

ECONOMIC AFFAIRS

DISTRIBUTION STATEMENT A

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CHINA REPORT
ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

INDUSTRIAL CATEGORIES DEFINED

Beijing ZHONGGUO NONGKEN [STATE FARMS AND LAND RECLAMATION] in Chinese No 6,
24 Jun 85 p 18

[Article: "How To Classify Primary, Secondary and Tertiary Industries"]

[Text] Question: We see many explanations concerning primary, secondary and tertiary industries in the newspapers, but the explanations are not unified. Please provide us with an answer concerning how primary, secondary and tertiary industries should be categorized.

Answer: Based on the national standard "Categories and Codes for Industries of the National Economy" jointly promulgated by the State Planning Commission, the State Economic Commission, the State Statistics Bureau and the State Standards Bureau, and in consideration of methods used abroad, the State Statistics Bureau recently made the following classification of the three industrial levels:

Primary industries: agriculture (including forestry, animal husbandry, fisheries, and so on).

Secondary industries: industry (including extraction, manufacturing, water supply, electrical power, steam, hot water and coal gas) and the construction industry.

Tertiary industries: other industries not included under primary or secondary industries above.

Because tertiary industries are so numerous and cover such a broad range, they can be divided into two main parts based on China's actual conditions. One is circulation departments and the other is service departments, and they can be divided into four levels.

The first level: circulation departments, which include communications and transportation, posts and telecommunications, commerce and food industries, materials supply and marketing and storage.

The second level: departments serving production and life, including finance, insurance, geological surveys, residential property, public affairs,

residential services, tourism, advisory and information services, various technical services and so on.

The third level: departments providing services to improve scientific and educational levels and the quality of life, including education, culture, radio and television, scientific research, public health, sports, social welfare and so on.

The fourth level: departments serving social and public needs, including state organs, government and party organs, social organizations, the military, police, and so on (note: the fourth level is not included in calculation of the value of output in tertiary industries and in domestic assessments of requirements).

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CSO: 4007/365

NATIONAL POLICY AND ISSUES

PRICE LIBERALIZATION AS KEY TO CHINA'S ECONOMIC GROWTH

Beijing ZHONGGUO SHEHUI KEXUE [SOCIAL SCIENCES IN CHINA] in Chinese No 3,
May 85 pp 51-64

[Article by Zhang Weiying [1728 4850 6601]: "On the Functions of Price"]

[Text] [Editor's note:] This article suggests that the basic functions of price are to: 1) ensure a balance between supply and demand in the marketplace, and 2) encourage and promote the rationalization [helihua 0678 3810 0553] of the industrial structure. The efficiency of the price mechanism depends on the stability of overall prices and the flexibility of relative prices. The ideal socialist price system should be a planned market price system, that is, a market price system under the guidance of planning. What the state should control is the overall price level and the market conditions which determine prices. It is not its job to set the relative prices for all kinds of products.

Born in 1959, Zhang Weiying is a graduate student in the Economics Department of Xibei University. He is currently on the research staff of the research institute under the State Price System Reform Commission. [End of editor's note]

I. Autonomy and Price

A sound economic system is always comprised of activities at two levels, the macroeconomic level and the microeconomic level. The microeconomy is a constituent component of the macroeconomy, while the macroeconomy is the sum total of the relations among microeconomies. The so-called economic system refers to the systematization and legalization of the relations between the macroeconomy and the microeconomies. The state of an economic system depends on the vitality of the microeconomy, on the one hand, and on the equilibrium of the macroeconomy, on the other. From this perspective, the basic shortcomings of the old system are twofold. First, the macroeconomy has controlled the microeconomies to death. Second, the macroeconomy has not itself been able to achieve an equilibrium. The aim of reforming the system is to sort out the relations between the macroeconomy and microeconomies. It involves two issues: 1) expanding microeconomic autonomy [or decision-making power, zizhu quan 5261 0031 2938], and 2) effectively strengthening macroeconomic control.

Autonomy means the right to choose. Under the old system, an administrative agency at the higher level makes choices on behalf of every producer and every consumer, like the head of a family making choices for its members. In depriving a microeconomy of its right to choose, we are in effect denying it its right to engage in economic activities. Invigorating the economy requires that all producers and consumers compare all available choices and select those they consider the best. Without choices, we cannot say that something is economical or otherwise, in the same way that we cannot say whether something is good or bad in the absence of an object with which it can be compared. Some comrades rightly sum up the old system as "state departmentalism."

Microeconomic autonomy includes producer autonomy and consumer autonomy. These two forms of autonomy complement each other; take away one, and the other will be meaningless. If we recognize consumer autonomy, we should allow consumers to freely choose the kinds and numbers of products in accordance with their incomes and tastes. Under the old system, the consumer had more freedom of choice than the producer, but on the whole he really had no free choice worthy of the word.

The core of producer autonomy is the right to make production choices. It includes choice of product, choice of product quality, and choice of production method; there are also the choices of raw materials and markets. Under socialism, an enterprise can only make choices within the framework set by the state's macroeconomic policies, laws and regulations. Command planning has no room for the first two and last two choices, but it does allow the third choice, that is, the right by an enterprise to use different production forms to carry out production in order to fulfill the target set by the state. Guidance planning and autonomous production, on the other hand, accommodate all these choices.

Expansion of autonomy is an important reform. First and foremost, it precipitates changes in the function of an enterprise. We know that under the old system, the function of an enterprise was only to fulfill the state plan. But with the right to choose, an enterprise will not be satisfied merely to fulfill a plan, but also to make a profit. In other words, an enterprise makes choices in order to maximize its profits. Nowadays the public is still debating an enterprise's proper production goals. Some comrades think it should be the satisfaction of social needs. There is nothing wrong with that in principle; the trouble is that society can make an enterprise respond to its needs only through the medium of profit. This is because, first, an enterprise cannot directly manipulate social needs (even state planning must go through the test of the marketplace); second, an enterprise cannot operate against its own interests; and, third, profit itself is the primary index by which the state evaluates an enterprise (in the words of Comrade Sun Yefang [1327 0396 2455], it is the "halter" [by which the economy is led]). On this matter, good wishes cannot replace objective facts. Rather than subjectively specifying it, we will be better off realistically recognizing it for what it objectively is.

This raises a problem: How do we ensure that microeconomic choices motivated by profit are compatible with the macroeconomic equilibrium (state plan) the

aim of which is to satisfy social needs? Since macroeconomic equilibrium is in effect a balance between production structure and demand structure, this problem can be rephrased as follows: How do we effect a balance between supply and demand through microeconomic choice? The supply-demand balance here is different from that which we discuss in relation to the marketplace. For the sake of convenience, let's call it "structural supply-demand balance" (to be abbreviated structural balance).

As we know, profit, simply stated, is the difference between the price of input (cost) and the price of output (income). Thus a logical conclusion is that the solution to the problem we posed in the preceding paragraphs can be found only in price.

Marx tells us that price is the currency manifestation of value. After a value is converted into production price, the market price will fluctuate around the production price. Assuming a supply-demand balance, market price equals production price, making possible a supply-demand balance in the marketplace.¹ The so-called "supply-demand balance" obviously refers to the "structural balance" mentioned earlier and not the "market balance." When Marx talked about a "supply-demand balance," he was also talking about the perfect industrial structure where the allocation of resources is most rational and the macroeconomic results are perfect. From this we can draw two conclusions. First, price is always discussed in the context of industrial structure; it does not make much sense to discuss price in isolation from industrial structure. Second, when we talk about whether or not a price is reasonable, we are really discussing whether the price system (relative prices) is rational or otherwise. If we say a certain product is underpriced, we imply that some other product is overpriced. It does not make sense to say that all products are overpriced (or underpriced). In this case, how do prices unify profits and structural balance?

In a market economy, if the industrial structure is not in a perfect equilibrium, there will be a shortage of some products (in terms of structural balance) and an oversupply of others. The market prices of the former will exceed production prices, and the producers will make a profit. The market prices of the latter will drop below production prices, and the producers will make a profit below the average value only, and may even incur a loss. Under these circumstances, enterprises will modify production to maximize profits, increasing the supply of the first group of products and cutting back on the supply of the second group. Only when the industrial structure reaches its optimal state can the market supply-demand balance point coincide with that of the structural supply-demand balance point and market price equal production price. And only then can an enterprise obtain a mean profit from whatever product it makes, in which case it will have no incentive to alter its production plan. It can thus be seen that the structural balance point is a stable balance point, whereas the market balance point is an unstable balance point. The functions of prices are to : 1) ensure a market supply- demand balance, and 2) help steer an unstable balance point in the direction of stability (i.e., rationalizing the industrial structure.) A price that achieves these two functions is a rational price. Otherwise, it is not rational. This is the only criterion by which we should assess the rationality of a price.

So far we have made the assumption that the stable balance point (structural balance point) is a fixed point. In other words, we have assumed an economic system in a static state, with a fixed resource structure and stable technological conditions and demand structure. In this case, no matter how large the initial difference between the market price and production price, the former will come to equal the latter after a certain period of fluctuations. In reality, however, the structural balance point can never be a fixed point because technology is progressing, the resource structure is changing, incomes are rising, people's tastes are evolving, and the demand structure is also changing. In real life, the industrial structure can only move in the direction of the optimal without ever achieving it. As Marx said, supply and demand never coincide in practice.² The market balance point never coincides with the structural balance point, and market price never equals the production price. The so-called rational price is that which constantly fluctuates around the production price.

The socialist planned economy is different from the capitalist market economy. Through planning, regulation and various other devices, the state can consciously guide the rationalization of the industrial structure and avoid the extreme dislocations (economic crises) characteristic of capitalism. But the two economies have one similarity, namely that even under socialism, the structural balance point is an ever-changing point. There is no such thing in real life as the optimal structure. Under socialism as under capitalism, the market balance point never coincides with the structural balance point. We can therefore see that even under the socialist system, a rational price can only be a flexible price, not a fixed one. Price rationality and fixed list prices are mutually exclusive.

If the state goes in for price fixing, what criteria should it use? A view much in vogue these days is that the state should fix prices on the basis of production prices. There are several difficulties here. First, if we fix prices according to production prices, market equilibrium cannot be achieved. Second, production prices in real life never equal production prices in a state of structural equilibrium. Third, production prices themselves fluctuate. So it is obvious that we cannot arrive at rational prices by fixing prices according to production prices. The real fallacy of this view lies in mistaking the essence of the law for its operational form. Marx pointed out clearly that the equalization of profit rates was the result of movement, not its cause. Production prices are what market prices revolve around, but they are not market prices themselves.

Can we fix prices according to market supply-and-demand, then? That, too, is not possible because the market supply-demand balance is an unstable balance. To use this unstable balance point on the assumption that it can be stabilized is tantamount to doing things without regard to changing circumstances.

Consequently a fixed price system will look something like this. Under this system, microeconomic choices can be allowed only at the expense of market equilibrium and market equilibrium can be achieved only at the expense of microeconomic autonomy. We discuss the problem below by looking at two scenarios.

In the first scenario, list prices are severed from market prices and profits do not reflect the market supply-demand relationships. As far as production is concerned, enterprises concentrate on high-priced items and neglect lower-priced items. As for consumption, consumers buy more lower-priced products and fewer high-priced products. Inevitably, there will be a glut of high-priced items and a shortage of lower-priced ones. The only way to achieve market equilibrium is by strictly limiting output (prohibiting enterprises from turning out an excessive amount of products on which they can make a handsome profit) and mandating the production of lower-priced products (enterprises cannot choose not to produce a product just because its profit margin is not large) on the one hand, and instituting a rationing system for low-priced products on the other. Of course, if mandatory production already manages to ensure a market equilibrium, a rationing system will not be needed.

In the second scenario, as far as products whose purchasing prices are higher than selling prices is concerned, only when the volume of supply induced by the former (purchasing prices) exactly equals the volume of demand induced by the latter (selling prices) can the market find its equilibrium in the absence of mandatory controls. But the state must still financially make up the difference between the two prices, resulting in a kind of price dislocation. In reality, it is very difficult to bring about this kind of equilibrium, and even if it is achieved, it cannot be sustained. Thus what usually happens is that either mandatory production or a rationing system has to be introduced. When the purchasing price of a product is lower than its selling price, the state must impose a monopoly on its purchase and marketing, thereby severing the relationship between production and marketing. The difference between the prices becomes a kind of monopoly income.

Autonomy and price-fixing, therefore, are mutually exclusive. Whatever market equilibrium achievable under price-fixing is merely a form of forced equilibrium. Here the market supply-demand balance does not revolve around structural supply-demand balance and the rationalization of the industrial structure can never be achieved.

There is one school of thought which argues that price fixing is not price freezing, and that the state can continuously adjust list prices (say, once a year) to adapt to changes in the economy. Even leaving aside the computational difficulties involved, this argument does not wash. First, changes in economic relations do not follow a timetable set by the state (such as once a year) but take place all the time. It does not matter how frequently you modify prices, they will never be able to keep up with shifts in the economy. Moreover, one very special thing about fixed prices is their static parity. Rather than adjusting prices frequently, we can spare ourselves much hassle by letting them fluctuate with the market. Second, the function of prices is not to passively record economic changes, but to actively adjust to economic change. When we react to a change in economic relations by adjusting prices, economic relations have already been distorted by delayed price changes.

Note that one important lesson why price-fixing has managed to survive in China for several decades (despite increasing irrationality) is stagnant technology and slow increases in the people's incomes (it will be very hard to

sort out the cause-and-effect relationships here). Technological stagnation means that production costs have remained relatively unchanged. Slow increases in incomes imply a relatively stable demand structure. Moreover, consumer needs mainly consist of daily necessities with minimal demand elasticity, which makes them amenable to the rationing system. Following the expansion of autonomy, technological advance will gather momentum, the relative costs of products will change rapidly, consumers' incomes will rise quickly, consumer goods will become more sophisticated, and consumer choices will be diversified. All this demands that products be continuously upgraded and appear in new guise in terms of pattern, color and size, and the structural balance point will move constantly like heated molecules. Under these circumstances, any attempt to maintain a static price system is as futile as relying on the Great Wall to keep out an invading modern enemy.

So far we have discussed the relationship between autonomy and prices from the angle of equilibrium. In the following paragraphs we look at the relationship from the angle of rights and responsibilities.

1. Rights and responsibilities cannot be separated. Not only is autonomy a right, but it is also a responsibility. Since an enterprise has the right to make choices, it must also assume responsibility for its choices. An element of coercion is inherent in responsibility. In this case what is the instrument of coercion? Market prices. Do the products of an enterprise meet social needs? To what extent do they meet such needs? Does the individual labor expended in the process of production obtain social recognition? To what extent does it do so? Answers to these questions can be found only through the test of the marketplace. To a producer in a competitive market, price is basically an external variable which an enterprise can influence but not dominate. By accepting the test of the marketplace, an enterprise in effect accepts the regulation of price. If the enterprise cannot recoup the costs of a product from its selling price, this should serve as a reminder that it must correct the choice it has made; one reaps what one has sown. For this reason, deregulating prices is not so much granting a right to the producer as governing it. On the other hand, the mere act of fixing prices is akin to the state placing an advance order with an enterprise, obliging itself to take all the merchandise the enterprise is willing to sell at the price concerned. Clearly it will be unreasonable for the state to practice price-fixing, on the one hand, and refuse to purchase the goods or to allow the enterprise to sell them at a revised price, on the other. Let us assume that the state list price for a certain product is 10 yuan. An enterprise makes 1,000 pieces of this product but can find no buyer at 10 yuan apiece. If the price is lowered to 8 yuan, people will snap it up in no time. But since the enterprise has no power to cut prices, these products simply go to waste and the enterprise fails to recoup its production costs. We can see from this example that state price-fixing is strictly for those products whose production is mandatory. The state can fix the price at zero, and treat the loss the enterprise will sustain as a kind of tax in kind. Alternatively it can fix the price at an excessively high level and pretend that it is giving the enterprise a fixed subsidy. Obviously what is at work here is anything but an economic principle.

2. If we recognize consumer autonomy, we must allow consumers a say in the area of market prices and let them be the judges of producers. Only under a flexible price system can consumers exercise this kind of power. For instance, consumers may reward an enterprise through their willingness to pay a high price or penalize another by bargaining to get the lowest price possible. In contrast, if prices are fixed, a consumer cannot haggle with a producer. He can only passively accept a price instead of influencing it actively. Through demand forecasting, the state certainly may try to make list prices as accurate a gauge of consumer preference as possible. But forecasting is just forecasting; it cannot replace reality. Nobody but the consumer can determine whether forecasting is accurate or not.

II. Competition and Price

As we all know, basic to the normal operation of an economic system is microeconomic vitality. Hence the need to expand enterprise autonomy. But while autonomy is indispensable to microeconomic vitality, it is not the only factor. Microeconomic vitality requires not only autonomy within an enterprise, but also inter-enterprise competition. In fact, autonomy and competition can be regarded as the two sides of a coin. On the one hand, once armed with autonomy, an enterprise will search for the most favorable conditions under which to do business, which will set off a tendency to squeeze out other enterprises (competition) in some ways. On the other hand, enterprise autonomy must be moderated by inter-enterprise competition. Otherwise, autonomy will lead to a monopoly and expanding enterprise autonomy will defeat its own purpose.

Competition is the energy releaser for the functioning of the economic system. By using the "carrot" and the "stick," it prods, compels and supervises enterprises, prompting them to continuously improve technology and lower costs to provide society with high-quality, inexpensive and practical products. The aim of competition is to increase the social efficiency of the allocation of resources. More specifically, it is to ensure that: 1) limited resources are reserved for use by the most efficient enterprises; 2) products needed by society are produced by enterprises with the lowest costs; and 3) the benefits of economic progress are passed on to the consumer in the quickest way (this point is of particular significance to socialism).

Inter-enterprise competition comes in all forms and shapes, but manifests itself most importantly in price competition. Competitive prices are the best judge to distinguish a good product from a shoddy one. They are the most sensitive indicator of economic progress.

1. Competition for Resources

Who should have access to limited investment funds? Who should use energy and raw materials in short supply? The enterprise with the highest bid, obviously. The reason is that since price is a measure of efficiency, the highest bidder is also the most efficient. If an enterprise is ready to raise capital by borrowing at an interest rate of 20 percent, it shows that the return rate on its investment cannot be lower than 20 percent. Or if an

enterprise is ready to buy coal costing 150 yuan a ton, the income generated by the input of one ton of coal cannot be less than 150 yuan, so on and so forth.

Resource prices formed in the course of competition represent a kind of social cost for the use of the resources concerned. If an enterprise fails to meet this cost, then it is not qualified to use the resource concerned. To let it continue to use it is a waste of resources. In other words, only the competitive resource price is a rational price.

Whether prices are flexible or otherwise, competition for resources has always been with us. However, this competition takes different forms and produces different results under different price systems. Under a flexible price system, competition manifests itself in advanced enterprises gaining the upper hand over backward ones by outbidding them. The result is that resources go to the most efficient enterprises. In contrast, when prices are fixed, backward enterprises will squeeze out advanced ones by such tactics as securing advantages through pull or influence or getting in by the back door, with the result that precious resources gravitate toward the least inefficient. Obviously, the rational utilization of resources is incompatible with a fixed price system. If we do not allow efficient enterprises to acquire resources at a high price, we will in effect be sheltering inefficient enterprises and endorsing their waste of resources.

The "scramble" for energy and raw materials has been raging in China for several decades. Reportedly such strange phenomena as "small fish feeding on big fish" and "the weak squeezing out the strong" have appeared in recent years. Some people attribute them to regulation by the marketplace. If this were really the case, then the capitalist economy must indeed be called "planned regulation" since "big fish have always been known to feed on small fish" and the "strong has always squeezed out the weak" under such a system. It is clear that this attribution is absurd. The root of the problem lies in the price system. When energy and raw materials are underpriced and processed products are overpriced, an enterprise can readily make a profit, even when it is extremely inefficient and works a one-day week. This explains why processing enterprises are everywhere regarded as "gold mines." Since the demand for resources far outstrips supply and since the state rations them in direct proportion to the size of the enterprise, the result is that all localities everywhere try to turn small factories into big ones and put up more and more small ones, further widening the supply-demand gap. It is conceivable that if prices are kept flexible, large efficient enterprises will capture all energy and raw materials for themselves by outbidding their smaller counterparts. In the absence of any administrative decrees ordering factory closure, suspension, merger or consolidation, small and inefficient enterprises will die a natural death, or may not even come into existence in the first place. The small enterprise which has the courage to offer a high price shows that it is a "lean, mean fighting machine" and should be allowed to exist. Moreover, under a flexible price system, many enterprises will be transformed from "consumers" into "suppliers." China has not run out of resources, so why should there be only "consumers" and not "suppliers"?

After obtaining more autonomy in recent years, many enterprises have begun to vie for resources by offering attractive prices. The market prices of some raw materials and energy products have soared several hundred percent over the list prices. This is a splendid development, a sign that efficient and inefficient enterprises are slugging it out in the marketplace. The expectation is that inefficient plants will be eliminated.

2. Competition for the Market

Who should produce the goods society needs? Certainly the enterprise with the lowest asking price, because a low asking price means low production costs. Prices determined in a competitive market are prices which reflect the law of socially necessary labor time. If the production costs of an enterprise are higher than market prices, this enterprise should be eliminated. If the production costs of an enterprise are lower than market prices, the enterprise should be expanded.

Like the scramble for resources, competition for the market has always existed. This competition takes different forms and produces different results under different price systems. If prices are flexible, advanced enterprises will end up cornering the market by selling goods at the lowest prices. The net result is a drop in the production costs of the entire society. On the other hand, if prices are fixed, the market will be carved up between advanced and backward enterprises. This will come about through administrative orders specifying everyone's share of the market. In the end, total social costs will go up. It is clear, therefore, that optimal production is incompatible with a fixed price system. Protection for the backward amounts to a restriction on the advanced. At present, there are many advanced enterprises that are able to offer their goods at lower prices. Under the current price system, however, they have no choice but to strictly control their production. A classic example involves companies in certain localities that overpriced their products sold abroad only to end up pricing themselves out of the market.

3. Economic Progress and Consumer Interests

Economic progress essentially manifests itself as growth in resource productivity and reduction in commodity production costs. If the relative cost of a product drops compared to the costs of other products, other things being equal, society should increase its consumption of this product in place of others. If its absolute cost is reduced, again other things being equal, consumers should benefit from this decline in cost through a reduction in price. Apparently, this is possible only under a competitive price system. When prices are fixed, the consumption structure cannot be changed and resources cannot be shifted onto the production of those products with low relative costs. As a result, the consumer has to continue to pay a relatively high price for a product whose cost has already dropped. Take chemical fiber textiles, for instance. Their costs have dropped substantially both relatively (compared to cotton textiles) and absolutely since the People's Republic was founded. Logically speaking we should have increased our consumption of cotton textiles. But this was out of the question before the price adjustment. Not only did the consumer have to pay a high price for a

product (chemical fiber textiles) with a low production cost (which in effect arbitrarily put a ceiling on its output), but he was also forced to consume more cotton textile goods which had a rather high social cost (thereby boosting its output). We can thus see that the argument that fixed prices protect consumer interests cannot be sustained.

III. The Open Door Policy and Prices

We pointed out earlier the two basic requirements for microeconomic vitality, autonomy and competition. But competition needs an arena--the overall economy.

A basic trend of social economic development is the continuous expansion of the economic system. As a unit of production, the individual has successively been replaced by a region, the entire nation and ultimately the world (the formation of the global economy). The larger the economic system, the wider the range of choice in production and consumption, and the higher the production efficiency of resources. One basic principle which has prevailed throughout the evolution of the economic system is social division of labor. And the so-called economic system is a system comprising mutually dependent components which result from this division of labor.

In this light, a serious shortcoming of the old system is that it has impeded the normal evolution of the economic system. More specifically, it has been a stumbling block in the following three ways. First, the natural economy has been allowed to hold sway for an extended period of time. Not only have we preserved the natural economy in the agricultural sector, but we have also created to a certain extent an "industrial natural economy" ("large and self-contained," "small and self-contained"). Even today, the functioning of the macroeconomic system remains severely impaired and there is still a sector of the economy operating independently of the overall economy, an "island" unto itself. Second, a rational regional division of labor has not been achieved, regional advantages have not been fully exploited, the macroeconomic system is fragmented by administrative divisions, and resources have not been rationally allocated on a national basis. Third, our long-term international isolation and the absence of extensive exchange of materials and information with the world have kept us out of the global economy, unable either to effectively use the favorable conditions provided by the international economy to develop our economy, or to fully exploit our strengths.

A basic goal of the open door policy is to develop our commodity economy so that resources can be rationally distributed on an ever larger scale. In a natural economy, the idea of resource allocation exists only in the mind of a producer. Like Robinson Crusoe on his deserted island, every production unit divides its labor between different jobs. A commodity economy, on the other hand, is like Robinson Crusoe after he met Man Friday: the allocation of resources becomes externalized, from the head of the producer to inter-producer relations. The idea of "value,"³ long hidden in the producer's consciousness, now takes the form of price and becomes the common language of all producers.⁴ In an open economy, price is further transformed into a

universal language--the exchange rate. Such is the general relationship between the open door policy and price.

A self-sufficient production unit achieves a supply-demand balance on its own. What to produce, how much and how--all this is decided by the producer itself in accordance with the unit's needs and resources (primarily labor and land). There is no such thing as a macroeconomic equilibrium here. A bad decision by a producer will not have an overly dramatic effect on other producers, in the same way that Robinson Crusoe's bridge, which took him 8 years to build, had no effect on us. If the producer makes a correct decision, he will obtain a greater consumption satisfaction than otherwise. If he makes a wrong move, his satisfaction will be less. In a commodity economy, in contrast, the supply-demand balance becomes a public matter involving the entire society. Producers now share a common fate, instead of having nothing to do with one another. As a result, the transmission of a correct price signal to the producer assumes absolute importance. If the signal is distorted, more than merchandise will be damaged; society will also suffer, including the consumer and the producer.

By its nature, a commodity economy makes no distinction between the external and the internal.⁵ The so-called "outflow" belongs solely to the natural economy. Indeed, an important feature of the commodity economy is "flow": the free circulation of people and goods. Without the free circulation of the elements of production and commodities throughout the entire society, there can be no commodity economy, no macroeconomic system. The organic characteristic of an economic system lies precisely in the circulation of the elements of production and commodities and the consequent interdependence between its various sectors. Circulation, of course, is not an end in itself, but is a means towards the rational allocation of resources.

As long as there are nation-states, however, there does exist a distinction between what is internal and what is external. The first phase of the open door policy is to open up the interior, which means opening the gates which have divided the nation into a collection of small ponds, and letting all elements of production and goods circulate as freely as possible in order to create an economic "lake." The objective basis for such circulation is the differing productivity rates that elements of production can achieve in different regions, and the different supply-demand ratios of goods in different areas. Rational circulation means the circulation of elements of production from a low-productivity, well-supplied area to a high-productivity area where there is a relative shortage. It also means commodities circulating from high-cost, low-profit areas to low-cost, high-profit areas. What is the criterion by which we measure costs and profits? Price. From the perspective of demand, the price of an element will be lower in a low-productivity area and higher in a high-productivity area. The price of a commodity will be lower in a low-profit area, and higher in a high-profit area. From the angle of supply, where there is an abundance of supply, the price of the element will be lower; where there is a shortage, its price will be higher. The price of a commodity in a low-cost area will be low; its price in a high-cost area will be higher. Prices, therefore, are the watermark of circulation. Under a flexible price system, prices will gradually rise in those areas where there is an outflow of commodities and gradually drop where

there is an influx of commodities. In the end, a common price level will be reached, at which point circulation will cease. That there is a single price for a commodity throughout society is the result, not prerequisite, of circulation. From a dynamic viewpoint, since the production conditions and demand structure in different areas are ever changing, circulation will never come to a stop, which demands that prices remain in a perpetual state of flux. Under a fixed price system, however, list prices can never reflect price levels in the real world. If we fix a uniform price for a commodity, we will in effect be blocking circulation; there can be no circulation in the absence of any stimulus. If we set a different price (which might be reasonable at the time it was set), prices will not change as a result of circulation. The result will be a lopsided kind of circulation. It is clear that prices cannot be fixed.

A glaring problem in the distribution of productive forces in China is that all regions have been going all out to create their own independent self-contained industrial system. There is a variety of reasons behind this attempt at self-sufficiency, but perhaps an important one is the ossification of prices.

At present, a form of cooperative trade (as in coal) is gaining popularity between regions. Parties engage in cooperative trade by mutual consent, which suggests that it is mutually beneficial. The good thing about cooperative trade is that it can offset some of the weaknesses of the present price system. But it should be noted that cooperative trade strongly resembles barter trade. Involved are necessarily low-priced goods because it makes sense only to exchange such goods. Areas which lack low-priced products are excluded from this form of trade, while those areas with much-sought-after products are in a dominating position. This is an abnormal trade created by an irrational price system.

The second phase of the open door policy is opening up the country to the world. As far as the economy is concerned, it mainly consists of two components: expanding trade and technical exchanges with the world, and attracting foreign capital. The open door policy has had considerable achievements in recent years, but it has also run into numerous problems, from information to management, from working style to party style. The most serious problems, however, have to do with prices. On the whole, losses due to reasons other than prices can be easily quantified; it is much harder to estimate losses resulting from price irrationality. Sometimes an apparent gain may not be a gain in real terms.

Foreign trade is an extension of domestic trade. Leaving aside political principles, foreign trade is determined by the basic principle of "relative cost." For politically independent countries, foreign trade is voluntary and mutually beneficial. If one side gets shortchanged in the process, it has only itself to blame, for no state is compelled to engage in trade against its wishes. Comparative cost is comparative benefit. To compare, we need a standard. If prices are irrational, the comparison will be distorted and there is no way of telling which products should be imported and which should be exported. Even today, comrades who have been in foreign trade for decades still have no clear idea whether China should import oil. It is true that

China's foreign trade coefficient is still quite small and that for the time being domestic prices cannot be related directly to foreign prices. In the long run, however, such a connection must be made: China should not be turned into a "cold-blooded animal," unresponsive to changes in the larger environment. Moreover, even if we only look at the here and now, our domestic prices must also be rationalized. If we do not have internal price rationality, how can we deal with the world? If internal prices are distorted, how can we judge whether trade is profitable for us? Two phenomena which have caught people's attention in recent years are the domestic sale of Chinese exports and the "outflow of profits." A foreign merchant makes two phone calls in Beijing, one to place an order for a consignment of goods with a Chinese, the other to resell the same goods to another Chinese. Of the three people involved in the two transactions, all believe they have made a good deal. But who actually gets fleeced? The state, the people. Had prices been flexible, the Chinese would not have sold to the foreigner since he could have gotten a better price selling to another Chinese. Nor would the other Chinese have bought from the foreigner because it would have been less expensive buying from another Chinese. But because prices are frozen, the deal has to be carried out through a foreigner since only non-Chinese are exempt from the fixed price system.⁶ Under an irrational price system, [the state] has to assume overall responsibility for profits and losses. Since acquiring greater autonomy in foreign trade, enterprises have been trying to undercut one another by slashing prices, resulting in a so-called "outflow of profits" because while any loss has to be made good by the state, a surplus will be split between them in foreign exchange. Why not do it? We should also note that in the capitalist world, prices fluctuate endlessly in accordance with supply-demand relations in the marketplace. If we pit our fixed price system against the foreigners' flexible system, we will only stand to lose. Compared to international prices, China's raw materials and energy are underpriced, whereas our finished products are overpriced. If these prices remain unchanged, I fear that the foreigner will be able to make a fortune in China without really trying. Moreover, they will capture our raw materials and energy by offering a good price and flooding our market with inexpensive processed products. China's low-cost labor is a great attraction to foreign investors, but this low-cost labor has a hidden cost to the Chinese government in the form of substantial welfare subsidies. By hiring a Chinese worker, the foreigner obtains in effect a labor cost subsidy from the Chinese government.

I must emphasize here one point related to resources. In the past we followed an uncompensated use system. Resources were not priced and did not constitute part of production costs. By exporting their goods, enterprises which used these resources were actually allowing foreigners to hire our labor force, rent our equipment and exploit our resources gratis. Enterprises were very keen to do it since they did make a small profit by exporting goods made with low-cost energy and raw materials. But what was marginally profitable for enterprises was disastrous for the state.

IV. Macroeconomic Control and Price

The normal operation of any economic system is premised on its overall equilibrium. Once this equilibrium is upset, the economy will degenerate into a state of chaos. The difference between a planned economy and a market economy lies not in their need for overall equilibrium--they both need it--but in their methods of achieving such an equilibrium. In a market economy, the equilibrium is effected through the free choices of myriad producers and consumers under the command and control of an "invisible hand." As conceived by Marx, a planned economy will achieve its equilibrium through the conscious macroeconomic choices of a social control center. The history of capitalist economies shows that the efficiency of a market economy is in inverse proportion to the development trends of productive forces. The market economy is destined to be replaced by a planned economy in the end. But the economic development of various socialist nations also proves that it is impossible to bring about an overall equilibrium at this stage if we deny the market mechanism and rely solely upon macroeconomic planning. Right now, our planned economy can only be the kind that combines microeconomic choices (the market mechanism) and macroeconomic control (state planning). On the one hand, microeconomic choices should be permitted under macroeconomic control, and the market mechanism should come into play under the guidance of state planning. On the other hand, macroeconomic management should take place on the basis of microeconomic choices and state planning effected through the market mechanism. The presence or otherwise of macroeconomic management is the main difference between a socialist planned economy and a capitalist economy. The admission that there is a place for microeconomic choice in the former gives them a degree of resemblance which cannot be denied.

Whether it be microeconomic choice or macroeconomic management, the ultimate aim is to increase efficiency (or to bring about an equilibrium). It is superficial to contend that microeconomic choices increase efficiency, while macroeconomic control helps bring about an equilibrium. Certainly under a command economy, efficiency expresses itself mainly through the microeconomy (in the form of profits), while equilibrium is a macroeconomic issue. But actually efficiency and equilibrium are two sides of the same coin. By equilibrium we are referring to the kind of equilibrium in a state of efficiency optimalization. To talk about equilibrium in isolation from efficiency is entirely meaningless. The reason why we sometimes treat equilibrium as the goal and equate it with efficiency is because efficiency exists only in the midst of equilibrium. It cannot stand on its own.

Having clarified this point, we can now establish some principles for macroeconomic control. Macroeconomic control serves such purposes as increasing the efficiency of the market mechanism and ensuring the correctness of microeconomic choice. Its purpose is not to deny the market mechanism or to deprive consumers of microeconomic choice. To decide what to control and what not to control, we have to weigh the pros and cons. In general, whatever can be resolved at the microeconomic level should not be controlled. The state should narrow as much as possible the scope of macroeconomic control, limiting it to matters which the microeconomy cannot handle, and uses economic means whenever possible in guiding microeconomic choices. There are issues where the absence of state interference might lead to some problems. But once

the state gets involved, even more complex problems will arise. On balance, therefore, it is better for the state to stay out of these areas. As far as possible, the state should avoid getting into a vicious circle: the harder it tries to control the situation, the greater the number of problems, and the greater the number of problems, the more compelling the argument for control. Of course, there are some problems whose complexity is not obvious. It often happens that a minor problem is relatively apparent while a far more serious one is much less conspicuous. A typical example is competition. If we allow competition, technical secrets and patent disputes will develop between enterprises. If we do not allow competition, there will be no technological progress and hence no technical secrets which an enterprise may want to hide from another. This is also a problem. After weighing the pros and cons, we will clearly see that the former is a less serious problem than the latter and that it is better to have competition. For a long time, however, many of our comrades did not support competition, arguing that it would give rise to technical secrets and wondering aloud how socialism could allow technical secrets. Given this kind of thinking, patent law naturally became a law unique to the bourgeoisie.

In light of the above principles, I believe the state should control what is major while loosening its grip on the minor. "Major" and "minor" are different from "more" and "less." The first pair denotes a qualitative concept; the second, quantitative. Uniting the two concepts, we may say that the state should concern itself with a small number of major issues, instead of a large number of minor issues. The word "major" refers to a macroeconomic variable, while "minor" refers to a microeconomic variable. The macroeconomic variable we have in mind here of course differs from the macroeconomic variable mentioned in bourgeois economics. It includes not only such total values reflecting the static equilibrium in the national economy (eg. total demand and total supply, accumulation rate and investments, money supply and price level), but also variables affecting the dynamic equilibrium in socioeconomic developments (eg. growth rate, long and medium-term planning which reflects strategic objectives, investment trends indicating industrial policy and the allocation of productive forces, key construction projects,) as well as such externalities for enterprises as infrastructural developments like public transportation, education and scientific research. Anything else belongs to the microeconomic level where the state should relinquish control. Certainly there may be individual crucial products which have an impact on the national economy and the people's livelihood and must be brought under command planning occasionally. But such direct interference in the microeconomy should be avoided if at all possible.

Accordingly, prices involve variables at two levels, the overall price level, a macroeconomic variable which should be under state control, and relative prices of various products, a microeconomic variable in which the state should not interfere. This is consistent with our earlier conclusion. The effectiveness of the price mechanism lies in the stability of price level and the flexibility of the price system. While the state should control the former to ensure stability, it should relax its control on the latter to breathe some life into the economy. For many years, however, people did not examine the problem at these two distinct levels, instead lumping together the

stabilization of prices with the fixing of prices. This is an error of the first order.

To ensure microeconomic vitality, the state plan is implemented through economic means, generally the fiscal device and credit. Price is certainly another means, but it is not amenable to artificial manipulation because the result is always a supply-demand imbalance. Suppose the government wants to cut down on the consumption of a certain product. If it tries to achieve this by manipulating its price, it should either raise its price to reduce demand or reduce its price so that it becomes less profitable to the enterprises, which will then slash production. Thus the state finds itself in a dilemma. On the other hand, if it tries to achieve its aim through tax policy, that is, by collecting a product tax, it may both reduce consumption by making the product more expensive and reduce the income of the producer, who will then have the incentive to cut back on production.

Market prices under socialism differ from free prices under capitalism. This is because under socialism, a producer makes choices under the guidance of the state plan and the market itself comes into existence under the control of the state plan. The price itself is not an independent variable, but includes elements of state planning. In addition, the state ensures the soundness of the market mechanism by using various kinds of market information to avoid violent price fluctuations. In this sense, socialist market prices can be described as planned market prices.

My suggestion that the state generally should not directly fix the prices of products should not be taken to mean that it should not have anything to do with the price of any product at any point in time. On the contrary, not only can it control the prices of some products, but it must also do so. I have in mind two kinds of products here. One includes products of a monopolistic nature such as railroads and telecommunications. The other comprises public utilities. We know that to operate normally, market prices require market competition⁷ and the absence of externalities. Without market competition, the market price of a product cannot reflect social cost. If the consumption of a product does not exclude the consumption of another product, or if it has positive externalities, then the market price is invalid. Such is the theoretical basis for imposing state control on the two kinds of products specified above. Of course, state price control does not necessarily mean the state directly stepping in to set prices. Control can also be effected through a profits tax. Price control should be achieved in a way most conducive to balancing supply and demand. While the state may take measures to control the prices of some crucial products which affect the national plan and the people's livelihood during an exceptional period, such measures should be regarded as transitional, not permanent. A detailed study should be carried out to determine if price control should be applied to those products the production of which is mandated by the state. Personally, I think there should be no control by and large because with flexible prices, a mistake in command planning will not result in destroying the market equilibrium. Also, market prices provide good feedback for state planners. Say, for instance, market prices are higher than production prices. This signals that output should be increased. With fixed prices, by contrast, planning errors will be accompanied by an imbalance in market supply and demand, and the only possible

result is rationing. If the plan is correct, then the market price itself is ideal. To control it under these circumstances is irrelevant.

V. The Planned Economy and Price

For a long time, people have seen fixed prices as a feature of a planned economy and assumed that we cannot have a planned economy without fixed prices. This school of thought is neither supported by historical experience nor buttressed by a solid theoretical basis. Historically speaking, price fixing has not been unique to socialist nations; feudal societies, too, had so-called "fair prices" set by the state. In capitalist nations also, there are times when price control is enforced. Some developing nations even treat price-fixing as a "handmaiden" at their beck and call. The idea that price fixing is a socialist trait simply is not tenable.

Certainly, price fixing has been able to secure a niche in China for both theoretical reasons and other factors relating to objective historical conditions. There are three major theoretical reasons. First is Stalin's commodity economic shell theory. According to this theory, prices are only an instrument of computation, not a vehicle for regulating economic activities. As an instrument of computation, fixed prices are clearly more convenient than floating prices. Second is the interpretation of economic planning as command planning. Under command planning, prices are of little significance to factory production. When output volume must be planned in conjunction with output value, moreover, fixed prices naturally serve as an excellent means of conversion. Third is the idea that rationing is what makes socialism superior. Rationing and fixed prices are like twins. Since the former is seen as a manifestation of superiority, how can we question the latter? Now that we have criticized the commodity economic shell theory, ceased to equate economic planning with command planning and no longer consider rationing a sign of the superiority of socialism, we really have no cause to regard price fixing as a feature of a planned economy.

Historically speaking, the initial decision to implement a price-fixing system did have a measure of objective inevitability. First, in the early years of the People's Republic, the nation was desperately poor and living standards were very low. Had prices been allowed to float freely, the livelihood of some people might not have been ensured. In the absence of any other viable alternative, therefore, the decision was made to ration basic daily necessities at low prices to ensure a minimal standard of living. Second, we needed a huge amount of capital to carry out industrialization. The accumulation of capital through the manipulation of prices seemed to be the only method we could think of at a time when "taxes" were totally discredited. Third, in its struggle against spontaneous capitalist forces and the socialist reform of capitalist industrialists and businessmen, the state had no alternative but price control to force their submission. Subsequently, price control was also used by the state in its struggle against speculation and profiteering. Now that our industries have grown from infancy to adulthood, our primary sources of accumulation are found within the industrial sector, we are no longer opposed to long-distance transporting and peddling (which was considered a form of profiteering in the past) and are actually encouraging

collective and individual commercial activities, the fixed price system should also recede into history. If what was considered rational under certain historical conditions continues to be so treated even when the conditions no longer exist, then we will be committing a historical error.

The experiences of all nations (whether socialist or capitalist, developed or developing) show that it is possible for a country to practice a fixed price system if it is content to maintain a minimal standard of living for its people, concentrate funds on the development of a particular industrial sector and lead an isolated, autarkic existence. On the other hand, if it is concerned about efficiency as well as justice, about the production of wealth as well as its distribution, and is eager to enrich people's lives as well as making sure they are adequately clothed, sheltered and fed, then it should adopt a strategy of balanced, overall economic development, not one that favors a particular sector. It should also throw open its door to the world, catch up with the mainstream of human development instead of being satisfied with self-containment, and willingly abandon the ossified price-fixing system in favor of a flexible market price system. This is certainly a long-term reform goal which cannot be achieved overnight.

FOOTNOTES

1. See "Capital," Vol 3, Chapter 10.
2. Op. cit., Vol 3, p 212.
3. Ibid., p 368.
4. See "Collected Works of Marx and Engels," Vol 13, p 142.
5. Ibid.
6. For a detailed analysis, see "The Price Issues of Energy Products," by Mao Yushi [5403 0060 6524], Section 5.
7. Marx said, "To make the prices at which commodities are exchanged approximate their values, as far as selling is concerned, there is no natural or man-made monopoly which can enable one party to the deal to sell the commodity at a price higher than its value or force another party to sell it below its value." "Capital," Vol 3, pp 198-199.

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CSO: 4006/871

ECONOMIC MANAGEMENT

JINGJI RIBAO ON STRENGTHENING ENTERPRISE MANAGEMENT

HK270724 Beijing JINGJI RIBAO in Chinese 21 Aug 85 p 1

[Editorial: "Strengthening Business Management is Where the Hope for Developing the Economy Lies"]

[Text] China's national economy is undergoing sustained development following the successful implementation of the policies of reform, opening up to the world and enlivening the domestic economy. However, some problems have also emerged. These problems manifest themselves in industrial production as follows: The quality of products has become worse, material consumption has increased, the cost of production is above average, and enterprises have incurred more losses. It is true that these problems are connected with the excessive scale of investment in fixed assets, the excessive increase in consumption funds, and total social demand being in excess of total supply. They also indicate that the guiding principles of some enterprises are not correct, that these enterprises one-sidedly seek output value and profits regardless of the quality of their products and economic results, and that their business management is bad. Therefore, while strengthening macroeconomic control, it is also necessary to improve and strengthen the management of enterprises.

Enterprises are the cells of the national economy and the main source of social wealth. If we do not improve the managerial and technological level of enterprises and their economic results, it will be impossible to increase the economic strength of the state, to smoothly carry out economic structural reform, to improve the people's standard of living, and to realize our great targets by the end of this century. Viewed from our immediate and long-term needs, the hope for developing China's economy lies in improving enterprises' economic results by strengthening their management, implementing technological innovations in their key links, and tapping their potential. All economic cadres, leading cadres of enterprises in particular, must have a clear understanding on this problem.

In strengthening enterprises' management, it is necessary to straighten out the guiding principles of enterprises, to really understand that all economic work must be centered on improving economic results, and to put this understanding into effect in the activities of enterprises. The economic results we mean refer to the economic results of the entire society. They do not refer to the immediate economic results of certain areas or enterprises.

We should not equate profits with economic results; still less should we seek profits by manufacturing goods in a rough and slipslody way or by raising the prices of goods at will. The basic method for improving economic results is to tap the potential of enterprises, to improve the quality of products, and to reduce the consumption of materials. On the basis of improving the quality of products, we should increase the variety of products, reduce material consumption, improve equipment and technical skills, and reduce expenses in order to increase profits.

In strengthening enterprises' management, it is necessary to hold firm to a socialist orientation, to display our talent, and to work hard. For example, we should pay attention to doing basic work, which includes studying original records, compiling statistics, working out rules and regulations, carrying out standardization, conducting measurement tests, providing information, and giving basic education. In doing basic work, we should concentrate our efforts on exercising overall quality control, strengthening the quality supervisory organs of enterprises, practicing a strict quality [control responsibility] system, and resolutely implementing the State Economic Commission's relevant rules and regulations on providing after sales service. In addition, we should do a good job in material management, in setting the level of material consumption, in establishing a purchase responsibility system, in expanding the scope of rewards for conserving raw materials, in vigorously reducing material consumption, in carrying out overall economic accounting, in delivering profits and taxes to the state, in determining the percentage of retention of funds, and in setting a rational number of personnel. Rules must be established that workers can take up their positions and carry out operation only when they have acquired qualifications through training. Their wages must be commensurate with the quality and results of their work. Those who are diligent and produce quality products should be rewarded and those who are lazy and produce poor products should be penalized. We should exercise management over equipment, technology, and technical skills, and pay attention to safety in production.

In strengthening enterprises' management, it is necessary to promote technological innovations and progress. In line with the plan for technological innovations and on the basis of improving the quality of products and reducing material consumption, enterprises should substitute advanced technology and equipment for old technology and equipment in a planned and selective manner. While carrying out technological innovations, it is necessary to carry out careful calculations and strict budgeting in order to avoid going in for grandiose projects, to fully tap the potential of the present equipment, and to improve the functions, precision, and operating load of the present equipment. So long as we pay full attention to "management" and the use of "technology," we will certainly improve the economic results of enterprises.

The crux of strengthening enterprises' management lies in improving the quality of the leading groups of enterprises as well as their staff and workers. The leading groups of enterprises should strengthen their party spirit, straighten out their work style, and rely on the masses in managing

enterprises. In selecting people for the leading groups of enterprises, it is necessary to consider not only their age and educational level, but also their actual ability, devotion to work, and responsibility; not only their technological level, but also their ability to manage. The party organizations, administration, trade unions, and youth league organizations of enterprises should attach great importance to ideological and political work; conscientiously carry out education in ideals and discipline; build a staff and worker contingent which has ideals, morality, cultural level, and discipline; bring into full play the initiative of the staff and workers of enterprises; and run socialist enterprises well.

To improve enterprise management, various departments, trades, and localities should give correct guidance to enterprises and create a good social environment for enterprises. For example, they should work out correct economic and technological policies and promptly announce necessary information so as to allow enterprises to have a clear orientation. They should formulate plans for enterprise development and technological innovations in order to prevent enterprises from carrying out their work in a blind manner. They should study how to improve the system of assessing the targets fulfilled by enterprises. In assessing the economic results of enterprises, it is necessary to take into account not only their output value and profits, but also the quality of their products (including the variety of their products) as well as the materials they consume in production. At present the social burden on enterprises is too heavy. It is necessary to work out regulations to solve this problem.

Practice has proved that in invigorating enterprises and delegating power to enterprises, it is necessary to strengthen management and supervision over enterprises and to strengthen the managerial, ideological, and political work of the in-house departments of enterprises. Delegating power to enterprises, invigorating enterprises, exercising management over enterprises, and educating enterprises must be closely combined. These are the fundamental requirements for developing a planned socialist commodity economy. So long as we devote much time and energy to enterprise management in the course of reforms, there will be bright prospects for China's economic invigoration.

CSO: 4006/923

ECONOMIC MANAGEMENT

BETTER FIXED ASSETS MANAGEMENT FOR RURAL, SMALL TOWN ENTERPRISES

Beijing NONGCUN CAIWU KUAIJI [RURAL FINANCIAL AFFAIRS] in Chinese No 7,
6 Jul 85 pp 51-54

[Article by Bao Weihe [0545 4850 0795]: "Rural and Small Town Enterprises Are in Dire Need of Strengthening Management of Fixed Assets After Signing Contracts"]

[Text] Fixed assets are the principal means of labor for rural and small town enterprises to engage in production and operational activities and also an important material basis for developing production. Strengthening management of fixed assets of rural and small town enterprises after contracts are signed and raising the rate of utilization of existing equipment is of vital importance to improving the income of enterprises, economizing expenditures and reducing cost.

I. Problems Demanding Prompt Solution.

Major problems existing in management of fixed assets of rural and small town enterprises following the implementation of the system of contractual operational responsibility are:

1. Internal management of enterprises is bad. Many rural and small-town enterprises do not have a management responsibility system to control fixed assets, consequently, the extent of damages and losses are quite serious.
2. An essential repair and maintenance system is lacking. The system in most enterprises is unsound as it stresses only the depreciation of fixed assets without putting aside major overhaul funds. Depreciation funds are used for major overhauls of fixed assets thereby further straining the depreciation fund reserve which is already too low to begin with.
3. The utilization rate of fixed assets is low. The output value created by existing fixed assets of rural and small town enterprises per 100 yuan is quite low; the output value created by fixed assets of enterprises per 100 yuan in general amounts to about 250 yuan. The gap is very wide since the amount can go as high as 400 to 500 yuan for advanced enterprises and a little more than 100 yuan for poorly run enterprises. This precisely illustrates that the existing equipment of rural and small town enterprises has not been fully utilized and that the latent potentials are still enormous.

4. The rate of depreciation is too low. The depreciation charges retained by enterprises as a rule account for about 5 percent of the total value of fixed assets. For some enterprises, this amount cannot offset the wear and tear of fixed assets and some other enterprises even have to "live off their past gains." This not only affects the renewal and transformation of existing equipment but also seriously impedes the technical progress of rural and small town enterprises.

II. Causes of These Problems.

According to a preliminary analysis, the principal causes for ineffective internal management of enterprises are as follows:

1. After the system of contractual operational responsibility is implemented, some enterprise contracts are reluctant to carry out repairs and maintenance according to schedule for fear that equipment repairs might take up man-hours and hamper production. Instead, they have resorted to the tactics of "refusing to leave the frontline simply because of minor wounds" but wanting to exploit the equipment fully and desperately.

2. Some enterprises are afraid of increasing the cost of products to the point of losing competitiveness in the market. As a result, they are reluctant to draw on major overhaul funds much less take out more depreciation charges.

3. In signing contracts, some rural and small town enterprises have failed to complete the necessary procedures without clearly defining the authority, responsibility and benefits. This is one of the causes contributing to drawing less depreciation funds or not drawing major overhaul funds at all.

III. How Internal Management Should Be Strengthened.

1. It is necessary to raise the understanding of leading personnel as well as financial and accounting personnel of enterprises toward strengthening management of existing fixed assets. It should be noted clearly that fixed assets are the material basis for developing rural and small town enterprises and also the essential means for enlarging reproduction by enterprises. For this reason, each and every enterprise should see to it that internal management is strengthened, production equipment is constantly kept in good condition and the rate of utilization of existing equipment is raised. If the output value created by fixed assets per 100 yuan is raised by 1 percent, it will amount to 1.5 billion yuan nationally. It is thus clear that an effective way to increase production and practice economy is to strengthen management of fixed assets.

2. It is necessary to step up reform of existing financial management methods and the accounting system in rural and small town enterprises. First, the rate of depreciation should be adequately raised. According to an estimate by financial and accounting cadres of the Tianjin Municipal Rural and Small Town Enterprise Bureau, raising the current comprehensive rate of depreciation

to 9 percent, compared with the 6 percent for state enterprises, is a significant difference. Because the equipment of rural and small town enterprises is outmoded and largely damaged and some continues in "service" beyond the prescribed limit while others are put into operation in spite of defects, many rural and small town enterprises have raised the depreciation rate of fixed assets since January 1985. For example, in Jiangsu Province where the rural and small town enterprises are more well-developed, the comprehensive depreciation rate of fixed assets for 1985 has been raised from 6 to 8 percent in the preceding year to 9.6 percent; in Henan Province, the original comprehensive depreciation rate of 8 percent will be set 2 to 3 percent higher than for the state enterprises of the same trade in 1985; Hubei Province has set the comprehensive depreciation rate at 8 to 10 percent; in Sichuan Province the financial department and the rural and small town enterprise bureau have issued a joint circular raising the annual depreciation rate to 10.8 percent. According to an investigation, it is better to maintain the comprehensive depreciation rate of rural and small town enterprises in general at a level not lower than 10 percent of the total output value of fixed assets. The rate may be set even higher in rural and small town enterprises where conditions permit. Henceforth, a method of determining depreciation by categories should be tried out on different fixed assets. For example, the rate of depreciation of a house or a building may be adequately set lower in relation to its service life in terms of the number of years; the rate of depreciation for machinery and electrical equipment should be set adequately higher; the rate of depreciation for means of transport and chemical equipment which are subject to faster wear and tear should be raised even higher; some maternal animals and draft animals may be depreciated by "substituting the new-born one for those deceased;" economic forests may be subject to less or no depreciation; for large new equipment of higher value, it is far better to figure out depreciation by the piece if possible. This is a more scientific way to determine depreciation according to different trades, different fixed assets and by differentiating varied conditions.

Second, different criteria for fixed assets should be stipulated according to different professions and trades based on actual conditions. For example, fixed assets of commerce and service trade may be set at 200 yuan, light and textile industries may be set at 300 yuan; the machine-building industry may be set at 500 yuan; communications and transport industries may be set at 800 yuan. The criteria for new equipment of advanced modernized enterprises should also be elevated. Only by unifying the criteria and the rate of depreciation of fixed assets based on different trades can the cost of products be made comparable among enterprises in the same trades, otherwise it will be very difficult to judge the cost and the quality of operations of certain enterprises.

Third, it is necessary to change the practice of living off "past gains" at year end in some enterprises which imposed smaller or no depreciation charges because they are making less profit or have incurred a loss.

Fourth, it is necessary to adequately draw on major overhaul funds. In drawing on such funds, rural and small town enterprises have to take into consideration three issues:

A. The scope of fund-drawing. Which trades should or should not draw major overhaul funds? Views vary with different places. Most comrades advocate that major overhaul funds should be applicable to all fixed assets of the communications, transport and building industries. While power machinery and transport equipment of commerce, service trade and planting and breeding industries should draw major overhaul fund, other fixed assets should not be included.

B. The amount to be drawn. Some comrades have suggested that the amount of major overhaul fund to be drawn should be 50 percent of the depreciated value of fixed assets; other have suggested 40 percent. I am of the opinion that under the present circumstances when experience is lacking, we should not "seek uniformity in everything." Thus it is better to try it out in different trades by starting with a few and increasing in numbers subsequently so as to accumulate experience step by step properly deciding on the amount of major overhaul fund to be drawn according to the categories of fixed assets. This way is more conducive to strengthening management of fixed assets.

C. The standards of utilization. How should the major overhaul fund be used once it is drawn? The views are more or less identical in various places on this point. A one-time repair expense exceeding 30 percent of the original value of fixed assets should be disbursed under major overhaul. A one-time repair expense for intermediate repair or minor repair lower than 30 percent of the original value of fixed assets should be disbursed under routine repairs. Repair expenses that are included in the cost once or several times cannot be disbursed under major overhaul.

3. It is necessary to add relevant clauses in the contracts. Because cadres of rural and small town enterprises do not have experience in signing contracts, the contents of the contracts signed are incomplete leaving out detailed clauses governing the management and use of fixed assets, thereby giving rise to the defects of accounting for less depreciation and drawing no major overhaul fund. In signing contracts henceforth, the contractors and the contract-issuing authorities should sum up past experience and lessons learned, assume a serious attitude, set forth strict clauses and complete all formalities.

We should, based on the principle of giving consideration to the interests of the state, the collectives and individuals, correctly handle the relationship among the three. We must insist on "paying taxes to the state according to laws and decrees, paying management fees in line with the set policies, accumulating sufficient funds for the collectives in adherences to the system and rationally distributing individual gains." We should see to it that both the contract-issuing authorities and contractors enjoy equality and mutual benefits, reach unanimous decisions through consultation and share equal rights and obligations with authority, responsibility and benefits clearly defined. The contracts must not only clearly specify output value, output, profit delivery and retention and distribution of profits and so forth but must also specifically spell out repair and maintenance, management and depreciation of fixed assets beforehand without any ambiguity whatsoever so as to make both parties abide by the contracts and help enterprises strengthen management of fixed assets and improve economic results.

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CSO: 4006/898

ECONOMIC MANAGEMENT

IMPORTANCE OF MACROECONOMIC CONTROL TO REFORM

Beijing LIAOWANG [OUTLOOK WEEKLY] in Chinese No 26, 1 Jul 85 p 22-23

[Article by Zhong He [6988 4421]: "Strengthen Macroeconomic Control, Develop a Good Situation, and Guarantee Progress for Reform"; portions within slant-lines in boldface]

[Text] /The general situation for economic development in our country has been very good since the beginning of this year./

This is shown primarily in the fact that as a result of the sustained growth in industrial and agricultural production several years in a row, the gradual improvement of economic results, noticeable acceleration of technical progress and the rapid rise in people's living standards, the rural economic reform is further deepening and urban economic reform is gradually developing. By strengthening macroeconomic control and management in several areas, the state has consolidated the excellent national economic situation that is developing in a sustained, stable and harmonious way and has unfolded the prospects of achieving a virtuous cycle. The urban and rural areas across the country are advancing steadily along the road of reform, opening to the outside world and reinvigorating the economy.

Agriculture is the foundation of the national economy. /A good agricultural situation must be sustained first of all in order to have an excellent economic situation./ As a result of reaping bumper harvests 6 years in a row and the gradual readjustment of the agricultural structure: the sown grain and cotton acreage has decreased and the sown acreage of other cash crops increased, a bumper summer grain harvest is expected due to popularization of fine seed strains and scientific planting methods. While cotton output is reduced according to plan, the output of oil-bearing crops, hemp and sugar is expected to increase by a wide margin. The liberalization of prices for meat, poultry and aquatic products has benefited the peasants and promoted the development of production; in the meantime, fruit, melon and vegetable production, other sideline occupations and the transformation of agricultural products are rapidly developing and the rate of agricultural products being sold as commodities has also increased very rapidly. The rural economy is flourishing.

/Industrial production is growing at high speed and the growth of light industry exceeds that of heavy industry in scale./

Color television sets, recorders, washing machines for household use and refrigerators for household use rose more than 70 percent over the same period last year; some doubling and redoubling, other showing a twofold increase. The output of silk fabrics, woolen goods and beer also increased by a wide margin. In heavy industry, the production of coal, electricity and oil, above all, has been overfulfilled. There has been a marked increase in total energy output. The output of power-generating equipment, mining equipment, internal-combustion engines, motor vehicles and tractors has also increased by a wide margin to cope with the needs of capital construction development.

/The state's key construction projects are progressing rapidly./

Progress has been made in the concrete-pouring project for the Gezhouba hydroelectric power station and the footage of shaft tunneling in 14 key coal mining districts and the footage of well drilling in six key oilfields have all surpassed the planned rate of progress. Construction of the Dalian-Qinhuangdao line, China's first modernized railway for heavy-loading unit trains, is well under way in the first-phase engineering district; the No 1 blast furnace project of the Shanghai-Baoshan iron and steel plant and its conveyance system are winding up; and the Jiangsu Huaihai cement plant has completed an all-round test run.

/The domestic market has kept up with the momentum of brisk sales./

As the people's living standards improve and the people are more keen about "nutritious food, stylish clothing and top quality items," goods of new varieties and new fashion for daily use are very much in demand. Many shops have set up special counters displaying goods of different varieties to serve different customers. In addition to various types of trade centers, permanent agricultural trade fairs and markets for small commodities, more street peddlers and food outlets have appeared in streets and lanes. The urban and rural markets are a scene of prosperity and bustling activities.

/The tendency of excessive extension of credit and putting excessive amounts of currency into circulation during the fourth quarter last year has been reversed. The tendency characterized by excessively rapid growth of consumption funds has come to a halt and foreign exchange control has been tightened. The extent of increase in financial revenue and surplus brought about by more revenues and less expenditures exceeded that of preceding years./

In short, the economic situation during the first half of this year was very good.

/At the moment, it is necessary to strengthen macroeconomic control and management./

In the course of economic structural reform, the limits of authority have been stipulated and the microeconomy invigorated and the productive forces greatly emancipated. Never before has the urban and rural economy been as active as it is today. But some new problems have also emerged.

The first thing that came to our attention is that /industrial production is growing too fast, especially that of rural and small town industries and village-run industries with a growth of more than 50 percent./

The development of production is undoubtedly a good thing. But it cannot last in the actual sense because it has gone beyond the possibilities provided by the supply of power, coal and raw materials and by communications and transport facilities. On the contrary, it has further strained supply and transport thus leading to reselling of raw materials and fuel at high prices for illegal profits and causing unnecessary confusion.

We can notice very quickly from statistical figures that /investment in fixed assets has also increased too sharply./

Investment in capital construction across the country between January and May rose 38 percent over the same period last year, a substantial increase was registered especially in self-financed investments and construction loans outside the state budget in excess of the limit of state planning. This will inevitably put a strain on the supply of materials and equipment and on communications and transport facilities.

/Moreover, prices soared for a time after prices for meat, aquatic products and vegetables were liberalized in some cities./

Besides, unlawful price hikes and adulteration of goods by some people also aroused discontent among the consumers.

These phenomena have made departments concerned realize quickly that further steps must be taken to strengthen macroeconomic control and management and work must be done more meticulously and well. Many economists, on the other hand, have also expounded and analyzed these phenomena from the theoretical point of view and in the light of the balance between total demand and supply in society.

In an excellent situation with economic reform and economic development mutually helping each other forward, some new problems have cropped up as expected. However, to consolidate and develop the excellent situation and ensure smooth progress of economic reform, it is necessary to strengthen macroeconomic control and management so as to hold these problems in check. In other words, we must not lower our guard. Since a certain amount of currency has to be put into circulation during the wage reform and price reform this year, it is very evident that /only by strengthening macroeconomic control and management and doing our work well and more carefully can we ensure smooth progress of these reforms./

/To strengthen macroeconomic control and management, it is necessary first of all to keep economic growth at a normal rate of development, namely, a rate commensurate with the supply of energy and raw materials and communications and transport facilities./

It goes without saying that this does not mean reducing the rate of industrial production in a manner of seeking uniformity in everything but rather of developing at high speed urgently-needed industrial products for daily use

in the market, particularly making available name brand quality products in every way. Efforts should be made in various areas to rapidly develop the production of coal, electricity and raw materials. Resolute steps should be taken to curtail certain backward products that are overstocked and adriotly guide the fast-developing rural and small-town industries and village-run industries according to circumstances so as to avert losses incurred from blindly developing toward a certain direction.

/In strengthening macroeconomic control and management, it is necessary to keep the scale of capital construction under control while controlling the growth of investment in fixed assets. Investment increase must keep pace with the production of building materials and newly added equipment./

Of course, investment cannot be curtailed in a manner of "seeking uniformity in everything." The state key construction projects must be primarily guaranteed along with the energy, electricity and communications and transport projects, scientific research and educational projects as well as housing projects and tertiary industry. Obviously, duplicating construction projects and projects for which the supply of raw materials cannot be guaranteed should be stopped. Some projects in areas experiencing critical energy and electricity strain must be curtailed, certain construction projects for which money and equipment cannot be fully guaranteed should be postponed. Only by not doing certain things can we accomplish something else. By stopping and postponing certain projects, we can complete other key projects more rapidly and with assurance. Only in this way can we develop the economic situation as a whole more effectively.

/To strengthen macroeconomic control and management, it is necessary to tighten control of consumption funds and strengthen management of wages and bonuses./

During the fourth quarter last year, especially in December, many units in some areas made the mistake of issuing excessive bonsues, such a mistake should not be repeated come what may. Wage reform must be carried out in a guided, planned and orderly manner. Plans for reform must be examined for approval. Bonuses should be issued in line with stipulations and tax must be paid in strict adherence to the tax law for the portion of bonuses that is taxable. In the course of wage reform, efforts must be made to strengthen ideological and political work so as to make the broad masses of workers and staff members understand the relationship between improving living standards and developing production, and to realize the unanimity of interests between the state, the enterprises and individuals and the importance of correctly handling the relationship among the three so that wage reform can play an effective role in further arousing the enthusiasm of the broad masses of workers and staff members for socialist construction and for developing production.

/To strengthen macroeconomic control and management, it is also necessary to continually tighten control and management of bank credits and foreign exchange receipts and expenditures./

By opening to the outside world and invigorating the economy, activities involving bank credits and foreign exchange receipts and expenditures have become more brisk than ever. This is the natural tendency of development of the socialist planned commodity economy. For this reason, as economic reform deepens and the national economy is developed at high speed, it is extremely urgent for us to strengthen control and management of bank credits and foreign exchange receipts and expenditures. Since we still lack experience in this area, we must learn through practical work and search for and sum up a set of practical and feasible measures.

Comrade Xiaoping has instructed us recently to "engage in less empty talk but more practical work." At a time when half of 1985 will soon be gone, it is imperative for us to analyze the situation more seriously, sum up our work and study and get ready for the second half of the year. So long as we grasp our problems and solve them in a down-to-earth manner, we will be able to strengthen macroeconomic control, develop the excellent situation and be certain to ensure the smooth progress of reform to satisfactorily realize the Sixth 5-Year Plan and lay a good foundation for the Seventh 5-Year Plan. Let us greet the convocation of the 13th CPC National Congress with actual deeds.

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CSO: 4006/898

ECONOMIC MANAGEMENT

XINJIANG MEETING ON IMPLEMENTING FACTORY RESPONSIBILITY SYSTEM

HK270537 Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 21 Aug 85

[Text] This morning the region convened a work meeting on exchanging experiences of implementing the factory manager responsibility system among experimental units.

The region has 118 enterprises carrying out this responsibility system. These enterprises have gained remarkable experiences in implementing the system. However, there are also problems. Chiefly speaking, some enterprises have not completely separated government administration from enterprise management. The duties incumbent on each person or post are not clearly defined.

In the light of the above problems, the meeting urged the party organizations of the region's departments, bureaus and enterprises concerned to seriously study relevant documents on implementing the factory manager responsibility system, and to strengthen their leadership over the work. The party organizations should seriously coordinate the relations among the factory manager, the party committee and the workers' representative assembly. They should give full play to the party committee's role of supervision, as well as the trade union's role of education, giving advice and support, and being a bridge. They should also do well in reforming the internal structure of enterprises.

The meeting pointed out: We must systematically carry out and firmly grasp the factory manager responsibility system. Units which have not started the work should not carry it out empty-handed.

The meeting also urged the factory managers who work in the experimental units to establish a perfectly correct concept, follow a democratic work style, consciously subject themselves to supervision by the party committees and the masses, and correctly handle relations among the factory manager, the party committee and the workers' representative assembly. Not only should the factory managers be bold in carrying out reforms but also be good at carrying out reforms. They should understand the technology and business as well as the art of leadership. They should know how to choose the right person for the right job, rally the cadres and workers around them, and fully mobilize their initiative so as to further do well in enterprise reforms.

ECONOMIC MANAGEMENT

BRIEFS

ENTERPRISE MANAGEMENT STRENGTHENING URGED--The provincial leading group for conducting general surveys of industry, the provincial leading group for consolidating enterprises, the provincial economic and planning committees, and the provincial industrial and commercial bank recently jointly issued a circular urging the industrial administrative departments at various levels and all industrial enterprises to conscientiously consolidate and strengthen the management of enterprises in accordance with the requirements of the general surveys of industry. The circular pointed out: To consolidate and strengthen the management of enterprises is an important preparatory work for a general survey of industry. It is also important work for improving in an all-round way the management skill and the quality of enterprises. Therefore, we must seriously do a good job in the work. The circular urged: All industrial enterprises must seriously act in the spirit of the relevant documents of the State Council. Before the end of October this year, the enterprises must fulfill the work of consolidation. The circular said: We must commend and appraise the advanced units which do well in consolidating the management of enterprises. For units which have passed the requirements for enterprise consolidation, we must further consolidate their management. We must revoke and recall the unit's pass certificate if it fails to meet the requirements of the general survey. [Text] [Zhengzhou Henan Provincial Service in Mandarin 1030 GMT 26 Aug 85]

CSO: 4006/923

FINANCE AND BANKING

REASONS FOR USING GNP INDICATOR

Wuhan HUBEI RIBAO in Chinese 18 Jul 85 p 4

[Article by Guo Xibao [6753 3556 0202]: "Why A GNP Indicator Should Be Established"]

[Text] While discussing the reform of the system of cities at Wuhan in April, Premier Zhao Ziyang stated that in assessing and evaluating the work done in the cities, we should not only take into consideration the gross value of their industrial and agricultural production, but that we should regard gross national product [GNP] as a major indicator. In the early part of May, the General Office of the State Council, in transmitting a notice regarding establishing statistic reporting for tertiary industries issued by the State Statistical Bureau, pointed out that, while we should continue to do the best we can in compiling statistics for gross output value in society, gross value of industrial and agricultural output [GVIAO], and national income, we must also compile statistics for GNP and tertiary industries.

Why must we compile a statistical indicator of the GNP?

By GNP is meant the sum total of the value of the final product created by productive laborers within a certain period of time (normally 1 year) and by the nation's workforce. The term productive laborers includes laborers engaged in material production departments as well as those engaged in the fields of communications and transportation, commerce, finance and the service trades and such spiritual productive fields as science, technology, education, literature and art, public health and sports. Insofar as production is concerned, GNP represents the sum total of the entire amount of newly added products in the national economy and the value of labor. As regards distribution, it represents the sum total of the income of the laborers, the profits made by the enterprises, and the depreciation of fixed assets. As for usage, it represents the sum total of expenditures incurred by individuals, enterprises and the state in consumption and accumulation, the purchase of products, and payment for labor.

The GNP indicator, in comparison with national income and GVIAO is characterized by the following:

1. Authenticity: The GNP indicator excludes the intermediate products among the products in society and does away with the misleading appearance given by the duplicated calculation in CVIAO. The GNP, when calculated from the production angle, is an added value. If, for instance, a bakery produces 10,000 jin of bread a year, its gross production value comes to 10,000 yuan. While the bakery pays 6,000 yuan for the flour, the flour mill has to pay the peasants 3,000 yuan for the purchase of the amount of wheat to produce the same amount of flour. Thus, the added value of the three production units is 3,000 yuan for the peasants, 3,000 yuan for the flour mill and 4,000 yuan for the bakery for a total of 10,000 yuan. The figure of 10,000 yuan is what is meant by the GNP. Calculated in the same manner, GVIAO comes to 19,000 yuan (the total of the production value of the three units), or 9,000 yuan over the GNP figure. Since the GNP figure excludes intermediate products, it is a truer indication of the level of economic development of a nation or region no matter how elaborate the division of labor or how high the degree of specialization.

2. Comprehensiveness: GNP includes not only the national income produced by laborers in the production departments, but also the income created by labor in tertiary industries. Thus, GNP is a truer overall indication of the level of economic development and the degree of prosperity of a nation or region than the existing figure for the national income.

3. Accuracy: In terms of income, GNP is the sum total of the national income, income from labor, and depreciation. Theoretically speaking, depreciation represents only the transfer of old values and not the creation of new values. However, it is difficult to ascertain the rate of depreciation of fixed assets due to the complexity of ascertaining the amount of material and mental wear and tear involved and to gauge accurately the transfer value of fixed assets. Under certain circumstances, the gross output value is in inverse ratio to depreciation and income. In other words, the more taken out of depreciation, the more income is correspondingly reduced, and the less taken out of depreciation, the more income is correspondingly increased. That being the case, the national income index is only an approximate value. When the GNP indicator is arrived at by adding the national income to depreciation, then the rate of depreciation would not affect the statistical figure. Thus, the GNP index is much more accurate than that for the national income.

The accuracy of the GNP index is of great importance when comparison is made of the indices among the nations. Generally speaking, the rate of depreciation of fixed assets in the western nations is more than 3 times higher than that in China. For this reason, the national income index in the western nations is lower than it should be, while ours is higher than the actual figure. That being the case, it obviously does not serve much purpose to compare the index of our national income with the indices of the western nations. In other words, it is more accurate to use the GNP index for purposes of comparison.

The establishment of a GNP indicator and making use of it as a major index for assessing and evaluating the economic standing of a region or city represents a major improvement over the way an index was arrived at according to the traditional statistical system. Its establishment also represents a major development in the traditional political and economic theories.

FINANCE AND BANKING

SHAANXI MEETING CALLS FOR ACTION ON TAX EVASION

HK260455 Xian Shaanxi Provincial Service in Mandarin 1130 GMT 25 Aug 85

[Excerpts] The provincial government held an executive meeting yesterday to hear a report from the provincial tax bureau on the current situation in tax collection work. The meeting took the important decision to immediately launch a major tax inspection throughout the province.

This year the central authorities allocated Shaanxi the task of collecting 1.5 billion yuan in taxes. By mid-August, 1.161.21 million yuan--77.4 percent of the quota--had been collected. This figure showed a rise of 27.31 percent over the same period last year.

However, judging by self-inspections carried out in by various units and a tax inspection pilot project recently launched by the provincial tax bureau, the problem of tax evasion is very serious in the province, involving about 90 percent of units and individuals concerned.

In order to bring into full play the role of tax collection in macroeconomic management and ensure the fulfillment of the year's tax quota, the provincial government has decided that the government at all levels must immediately organize work groups composed of effective cadres from the financial, tax, industry and commerce management, auditing, banking, public security, and judicial departments to carry out a major tax inspection on the basis of the self-inspection carried out by taxpaying units. The inspection will focus on investigating tax evasion since 1984. There must also be a certain amount of investigation of cases going back to 1983. The chief targets are those units with large sources of tax, many problems, and serious tax evasion.

The meeting pointed out that in the future it is necessary to step up education for taxpayers. They must seriously implement the tax policies and fulfill their legal obligation to pay tax.

CSO: 4006/925

FINANCE AND BANKING

INDUSTRIAL AND COMMERCIAL BANK OF CHINA ISSUES NEW BONDS

Beijing JINGJI RIBAO in Chinese 31 Aug 85 p 3

[Article by Chai Mao [2693 5399]: "The Industrial and Commercial Bank of China Issues 500 Million Yuan Financial Bonds This Year To Regulate Demand and Supply of Funds and Open Up Financial Market"]

[Text] To provide part of the funds urgently needed by enterprises in the current economic development and gradually open up the socialist funding market by employing economic means of regulating the demand and supply of funds and invigorating urban finance, the Industrial and Commercial Bank of China has, with the approval of the People's Bank of China, decided to issue financial bonds totaling 500 million yuan and administer special loans in cities this year.

The financial bonds are in 20-yuan, 50-yuan, and 100-yuan denominations with a time limit of 1 year and an annual interest rate of 9 percent. They will be sold to individuals by business units affiliated with the Industrial and Commercial Bank. These bonds are to be purchased by individuals in cities on a voluntary basis with the principal and interest paid in full upon maturity; the bonds cannot be cashed before the due date nor can they be circulated, transferred or mortgaged.

Funds collected by the bank through issuance of financial bonds will be used entirely for extension of special loans. These loans will be chiefly used by urban collective enterprises for producing much-needed products with good economic results, for technical transformation and capital construction projects that can go into operation upon completion by investing a small amount of funds, and used as circulating funds urgently needed by projects upon completion. To guarantee the economic results of the projects for which loans are extended, enterprises obtaining loans must be guaranteed by economic entities making sufficient profits, and the guarantor units must be held jointly responsible for repaying the loans. The annual interest rate for special loans is 12 percent and the maximum rate is 14 percent; different interest rates will be applied by the banks within this range based on different circumstances, the time limit of the loans, and repayment schedules.

The issuance of financial bonds and the extension of special loans by the Industrial and Commercial Bank represent an important reform of urban financial

work. This work will play a positive role in further helping the bank in collecting funds in society, opening up the financial market, regulating the urban economy and transforming some of the consumption funds into production funds thereby ensuring smooth progress in the urban economic structural reform and sustained, stable and harmonious national economic development.

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CSO: 4006/920

FINANCE AND BANKING

FINANCIAL, TAX REVENUE WORK CONFERENCE HELD

SK090436 Jinan Shandong Provincial Service in Mandarin 2300 GMT 7 Sep 85

[Excerpts] At the provincial financial and tax revenue work conference held on the afternoon of 7 September, Governor Li Changan pointed out: The central task of this year's financial and tax revenue work is to achieve a balance of financial revenue and expenditure. As for achieving a financial balance, we should pay attention not only to the present needs but also to the needs of developing various undertakings during the seventh 5-year plan period which will begin next year. The CPC committees and governments at all levels should grasp this work as a major matter of reform, while opening to the outside world and invigorating the economy, and should achieve a real success.

Comrade Li Changan said: Recently, the leading comrades of the State Council have repeatedly stressed that this year we should achieve a balance of financial revenue and expenditure and should not suffer deficits in any case. This major policy decision of the central authorities is of great significance in achieving a fundamental turn for the better in the financial and economic situations of the country, in ensuring a smooth progress in the reform of the economic structure, and in consolidating and developing the excellent situation. As far as a province is concerned, it is all the more important to guarantee a financial balance. We have already guaranteed the people throughout the province at the third session of the sixth provincial people's congress that we will achieve a balance of financial revenue and expenditure and will strive to make up for the deficits of the past years.

Comrade Li Changan emphatically pointed out: The key to achieving a financial balance this year lies in making the general tax and financial checkup successful and in resolutely reducing financial expenditure. Whether or not we can overfulfill this year's financial revenue task depends on how deeply and widely we carry out this general checkup. Recently our province has decided to establish a provincial tax and financial checkup group composed of more than 400 specialized cadres from the various localities and headed by Vice Governor Ma Shizhong to help and supervise them to carrying out financial checkups. The various localities should also assign leading comrades to take charge of the work and to organize powerful contingents in order to make the impetus and scope of this general checkup stronger and greater, to thoroughly carry out this general checkup, and to collect all money that should be collected.

Comrade Li Changan pointed out: To achieve a balance of financial revenue and expenditure this year, we should also reduce financial expenditure and strictly control expenses. First, we should adhere to the principle of acting according to one's capability and strictly guard against increasing expenses. From now on, there should be no additional expenses except under special circumstances. The expenditure budgets planned in the beginning of this year, whose funds cannot be guaranteed, must be stopped. No new expenditure should be planned even in the above-quota revenue of this year. Second, we should resolutely reduce administrative funds, strive for a reduction of 10 percent, and grasp this work as an important aspect of endeavor to straighten out party style and to strengthen the ideological construction of organs. We should strictly control the institutional purchasing power, stop examining and approving the applications of administrative organs for buying small vehicles, and be determined to simplify and reduce the number of meetings.

Comrade Li Changan emphatically pointed out at the end of the conference: To achieve a financial balance this year, we should first foster an ideological viewpoint of taking the overall situation into account, properly handle the relationship between the part and the whole, and should not make selfish calculations. We should stand on a high plane and see far ahead, and should give more considerations to the interests of the state and of the whole province.

CSO: 4006/925

FINANCE AND BANKING

SUMMARY OF DISCUSSION ON CONSTRUCTION BANK REFORM

Beijing JINGJIXUE ZHOUBAO [ECONOMICS WEEKLY] in Chinese 28 Jul 85 p 6

[Article by Liu Dingping [0491 0002 1627] and Lu Xianhu [7627 0341 5170]:
"Summary of Discussion on the Reform of the Construction Bank"]

[Text] I. How the Construction Bank Should Go About Exercising Macroscopic Control and Invigorating the Microcosmic Economy in the Reform of the Entire Economic System

The major functions of the Construction Bank are, from the macroscopic point of view, the exercise of control over the scale of investment during the period of the 5-year plan, the determination of the direction which investment should take, the distribution of regions and cities, and control over major investment and policy decisions. From the microeconomic standpoint, its major functions are to invogorate the Construction Banks at the basic level, to bring fully into play the positive attitude of the vast number of staff and workers, to raise funds from a variety of sources and to exercise effective control over the use of credit funds to promote local economic construction.

On the subject of exercising effective control from the macroeconomic standpoint, some represetnatives hold that the "four unities" must be upheld.

(1) Unified theory: This calls for all capital construction, renovation and transformation projects, the "five projects without scale" and "eleven projects not calculated," technical transformation projects, and major repairs, to be classified as fixed asset investments. (2) Unified planning: This calls for the incorporation by the planning department of all investments in fixed assets into one plan which may either be directive planning (capital construction) or guidance planning, (renovation, transformation). (3) Unity of funds: Aside from funds raised and foreign capital borrowed and repaid by certain parties, all funds used for investment in fixed assets are to be loaned by the banks. All budgetary funds and funds raised by the local financial departments for investment must be turned over to the Construction Bank as credit funds to be used in a coordinated manner in its external operations. (4) Unified management: All investments in fixed assets are to be placed under the unified control of the Construction Bank in its capacity as an investment bank. In this manner, all fixed assets, having to pass through the "gate" of the Construction Bank, will be placed under its control. Other representatives pointed

out that in order to exercise macroscopic control, the Construction Bank must have the following under its control: First, it must exercise control over the scale of investment in fixed assets by not extending loans to projects which are not included in the plan or which exceed the limits of the plan. Second, it must exercise control over the allocation of funds and the extension of loans for projects under directive planning. Third, as for the extension of loans for renovation and transformation projects, temporary loans used as circulating funds, credit loans and other loans taken out of bank deposits, the Construction Bank should be given a free hand so long as such loans are within the overall limits and the amounts set by the guidance plan.

As for the lifting of restrictions and the invigoration of the economy from the microeconomic point of view, many representatives believe that in order to invigorate the economy, it is necessary to invigorate the banks at the basic level by giving them freedom of action in running their operations, in controlling their finances and in granting approval to projects and to see to it that credit funds are put under control and used effectively. Other representatives hold that in order to invigorate the microeconomy, it is necessary to define the area of responsibility among the Construction Bank, its branches and banks serving as their agents. It is their opinion that the Construction Bank and its branches must direct their effects toward strengthening their macroscopic control, including the drawing up of the relevant systems and provisions, granting approval to projects, planning and studying theories on investment, the exchange of information on investment, the coordination of the banks at the basic level and the provision of guidance, services and supervision. While implementing the plan for investment in fixed assets and that for credit loans set by the state, the banks at the basic level must also assess and evaluate the various projects, investigate loan applications, check up on the loans after they have been extended, and direct their efforts toward increasing the effectiveness of investment.

II. How To Make the Construction Bank an Investment Bank in the True Sense of the Word

Many representatives share the view that in order to serve as a genuine investment bank, the Construction Bank must exercise control over the projects, engage conscientiously in the work of investigation and research, the assessment and evaluation of projects and the making of decisions concerning the projects in a cautious manner. Other representatives are of the opinion that, ours being a socialist nation, we should make our own decisions as to what pattern to adopt and that the reform of the Construction Bank should be undertaken with the objective of making it an investment bank in the true sense of the word.

The representatives holding these views believe that the following must be done if the Construction Bank is to serve as an investment bank in the true sense of the word: First, a fund must be set up for loans for investment in fixed assets. This fund may be derived from annual allocations by the state treasury, funds accumulated by the Construction Bank itself or from funds raised by society in a variety of ways. Second, it is necessary to reform

the existing system for the control of the investment plan so that the Construction Bank may be empowered to make decisions. From now on, except for major projects which have a bearing on the affairs of the state and the welfare of the people, the power of making decisions should gradually be vested in the Construction Bank. Third, the internal organizations and setups as well as the administration of the Construction Bank should be reformed so that it may operated in a scientific manner. It is necessary to reform the existing method of setting up departments and offices according to the sources of funds by taking into consideration each and every phase in the entire process of investment so that investment may be developed in an integrated fashion with consideration being given to information, decisionmaking, enforcement and feedback. It is necessary to reform the existing internal financial control system and to adopt a truly businesslike financial management system. It is necessary to reform the existing personnel system by making the president of the bank responsible for advertising for applicants. Those representatives holding this view believe that for the Construction Bank to serve as an investment bank with Chinese features, it is necessary to enlarge its operations and to turn its original financial control over each phase of the projects of construction into control over investments, and on this basis to shift the emphasis to the early stage of the projects and to the area of production after the projects have been put into operation. Specifically, five changes will have to be made. First, in the area of guiding ideology, major emphasis must be shifted from the financial functions of the treasury of the past to the functions of the banks. Second, in the management of funds, the major reliance on administrative measures in the past should be shifted to the use of economic measures. Third, the method of operations should be changed from that of the closed type of the past to the open type. Fourth, the method of operations should be changed from that calling for supervision to that motivated by the spirit of service. Fifth, the method of internal management should be changed from that of administrative management of the past to that adopted by the enterprises. It is only thus that the Construction Bank can take on the special features of an investment bank.

III. How the Construction Bank Can Open Up Avenues for Raising Funds in Support of Local Economic Construction

The representatives unanimously agreed that in order to serve as an intermediary for the granting of credit loans for investment in fixed assets, the Construction Bank must make use of lending as a lever to accumulate funds in society to support local economic construction. Specifically, this can be done by: (1) Accumulating the decentralized funds of the enterprises for renewal and remodeling; (2) issuing construction bonds to turn decentralized short-term funds in society into long-term and stable funds; (3) engaging in credit deposit operations to absorb idle funds in society; (4) serving as an agent for issuing stocks and raising capital by floating shares as a means of raising funds; (5) engaging in mutual aid in the supply of funds among the specialized banks; (6) contracting foreign loans, etc.

FINANCE AND BANKING

PRICE ADJUSTMENT, CONTROL DISCUSSED

Wuhan HUBEI RIBAO in Chinese 1 Aug 85 p 4

[Article by Zhou Zi [5297 1311]: "Price Adjustment and Price Control"]

[Text] Our current price reform program is aimed primarily at the adjustment of the price structure to permit prices to go up or down. Since many of the current prices in our nation are inordinately low--some prices are even below cost--most of the prices are being adjusted upward instead of downward. How should we deal with the upward trend of prices? Will it lead to the loss of control? These are questions many people are asking.

The value of the currency as reflected by prices is determined primarily by two factors. First, the value of commodities is determined by the amount of labor invested in the production of such commodities. The higher the value of the commodities, the higher are their prices, and the lower the value of the commodities, the lower are their prices. Second, when the currency, that is, the value of the unit of currency, is depreciated, prices will go up. The increase in prices across the board is caused by inflation.

Theoretically, as a result of scientific and technological progress and the continuing increase in the rate of labor productivity, there should be a continuing downward trend in the value and the prices of commodities. However, there are in actual practice many factors contributing to the increase of prices. When the factors contributing to the downward trend of prices are balanced against those contributing to the upward trend, the general price level can either go up or down. That being the case, does the adjustment presently being made to the prices of certain commodities mean that prices are to be allowed to go up freely and without regard to the value of the commodities? The answer is "no." We would do well to take a look at the present level of our commodity prices.

According to our traditional theory of the past, the prices of the means of production should be lower than those of the means of subsistence, and price support for agricultural products should be lower than that for non-agricultural products. Furthermore, the low wages being paid and the difficulty of increasing the prices of consumer goods have led to the present low level of wages and prices in our nation. Generally speaking, the present price level is relatively low. In fact, the prices of many commodities are

lower than their value. The price of coal is a good example. The phenomenon of unreasonable prices represents a serious problem. Rice, for instance, is bought from the peasants at over 0.20 yuan per jin and sold to staff workers for only 0.15 yuan. Taking housing as another example, we have for many years regarded housing subsidies for staff and workers as a form of welfare. The rent for each square meter of living space comes to only a little more than 0.1 yuan, that is, 10 percent of the actual cost and 5.65 percent of the commercial rate. The subsidies for housing and certain commodities paid by the state actually amount to as much as one-third of its income. The cheap rent and low commodity prices, serving as they do to stabilize their livelihood, are much welcomed by staff and workers. In actual fact, however, the cheap rent and low commodity prices not only have made it impossible for the state to recover its investment in the production of a variety of products, but have also set in motion a vicious circle creating more and more difficulties for the finances of the state, which has to pay more and more subsidies and to make more and more investments to achieve greater production.

This situation, which neither promotes reproduction nor contributes to the improvement of the livelihood of the people, must not be allowed to continue. The increase in the prices of certain commodities resulting from price reforms should be viewed as an improvement of the situation marked by the inordinately low prices of such commodities, a step toward bridging the gap between prices and values and the establishment of a reasonable economic relationship, and as being necessary and justifiable. A stop, however, must be put to the present price situation wherein prices are being raised under false pretences by substituting inferior products for quality products and by resorting to short weights and the practice of taking advantage of price reforms to buy up and then to resell commodities at higher prices since the practice runs counter to the program for adjusting prices in line with proper economic relationships. Instead of adopting the attitude of "unalterably opposing price increases," we must firmly oppose random price increases while giving our full support to reasonable price adjustments.

Let us now take a look at the effect which the amount of currency in circulation or the amount of value represented by the monetary unit has on the price level.

Currency is issued under two conditions. First, the issuance of a larger amount of currency as a result of the development of production and the increase in the amount of commodities is known as economic issuance. Second, the issuance of a larger amount of currency to make up for the deficit incurred by credit loans and budgetary deficits is known as deficit or financial issuance. Economic issuance, which is backed by goods and materials, will not trigger inflation, devaluation or price increases. Deficit issuance, on the other hand, is not backed by goods and materials so that the larger the amount of issuance, the more likely it is for prices to go up. Under certain economic conditions, there is a certain objective ratio between the amount of currency and the amount of commodities in circulation in society. For instance, the present ratio between the amount of currency and the amount of commodities

in circulation is 1:6. Any change in the ratio would have a major impact on the rise and fall of prices. When there is a large amount of currency and a small amount of commodities in circulation, prices will go up. Conversely, when there is a small amount of currency and a large amount of commodities in circulation, prices remain stable. For this reason, the planned control over the issuance of currency would serve to maintain the stability of commodity prices.

It goes without saying that the effect which the amount of currency in circulation has on the level of prices is determined by a number of factors. For instance, under our original system of planned control, prices served primarily as a tool for dealing with planned accounting and not as a major lever for the adjustment of the economy. That being the case, the amount of currency in circulation can have a considerable but not decisive effect on the unified commodity prices set by the state. As price reforms are being widely implemented and as the range of commodities sold at fixed prices is being reduced, the amount of currency in circulation will have an increasing effect on the level of prices. Thus, the amount of currency in circulation will have a notable regulatory effect on floating prices, negotiated purchasing and selling prices, negotiated prices in the industrial and commercial sectors, and prices in country fair trade. From the macroeconomic point of view, the exercise of control over the issuance of currency is therefore a basic means for limiting the extent of price fluctuations. Fluctuations in the prices of specific commodities due to the supply and demand situation in the market are of a local and short-term character and capable of being restrained by the adjustment of the production structure. Such problems as random price increases can also be dealt with by the adoption of administrative measures and by the strengthening of market supervision.

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CSO: 4006/883

FINANCE AND BANKING

GUANGDONG REVENUES SHOW 29-PERCENT INCREASE

Guangdong NANFANG RIBAO in Chinese 2 Aug 85 p 1

[Article by Li Sensheng [2621 2773 4141]: "Revenues of Guangdong Province Show 29-Percent Increase for the First Half of the Year"]

[Text] The revenue situation in Guangdong Province since the beginning of the year has been most encouraging. According to statistics furnished by the provincial department of finance, 3,565 million yuan in revenues has been collected in the first half of the year, showing an increase of 29 percent and of 660 million yuan over the figure for the same period last year. This is the result of efforts made in the various battle lines in the implementation of the open door policy and the policy of invigorating the domestic economy, the sustained increase in industrial production, active trading in the marketplace, the greater volume of commodities in circulation and the reform of the financial system.

The revenue situation of the province during the first half of the year is marked by certain special features. First, the revenues of all the 14 cities and districts in the province have shown an increase in general and more sizable increases in Guangzhou, Shenzhen, Zhuhai and Foshan in particular. Second, receipts from industrial and commercial taxes have shown a large increase. Industrial taxes have increased by 30.17 percent, while commercial taxes and taxes paid by the transportation, food and service enterprises have risen 26.7 percent.

While revenues have increased during the first half of the year, the rate of increase differs from district to district and certain items have shown a lack of stability. At the same time, expenditures have shown a tremendous increase. We must not, therefore, view the financial incomes and expenditures for the year with a sense of equanimity and unqualified optimism. We must, instead, continue to increase revenues and reduce expenditures if we are to achieve a balance in receipts and expenditures for the entire year. Furthermore, the serious problem presented by the laxity of control over revenues and taxes on the part of certain districts and units, and the prevalence of tax evasion and violations of financial and economic discipline, are matters which call for the heightened attention of those in leadership positions at various levels.

FINANCE AND BANKING

BRIEFS

XINJIANG TAX REVENUES INCREASE--From January to July this year, the total revenues accepted by all taxation departments in the region amounted to some 857 million yuan, of which 580 million yuan were industrial, commercial, and salt taxes. This figure marks 67 percent of the annual target and represent an increase of 62.6 percent over that of the same period last year. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 5 Sep 85]

CSO: 4006/925

INDUSTRY

ACTION URGED TO IMPROVE INDUSTRIAL PERFORMANCE

HK090225 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 8 Sep 85

[Text] Input consumption in Yunnan's industry increased during the first 7 months of this year, while product quality declined. On 2 September, the provincial economics commission issued a notice demanding that the units concerned take steps to correct this situation as soon as possible.

The notice points out: From January to July this year an increase was recorded in 23 out of 50 main raw materials and fuel consumption indices which were given thorough checks. Four other indices remained steady. Performance in the light, textile, metallurgical, and building materials trades was rather poor. The performance in the coal, electric power, and chemical industries was relatively good.

Regarding quality, a decline was found in 24 out of 84 main indices which were given thorough checks. A further 17 were steady. There were notable declines in quality of some light industrial and textile products. Quality in the metallurgical, machine-building, chemical, and coal industries was relatively good.

The notice points out: Although the province's industrial production has risen relatively rapidly this year, output of the majority of products is still unable to meet market needs. In these circumstances, some enterprises have attached much importance to output and little to quality, and have neglected raw material and fuel consumption. Unless this problem is solved, it will threaten the existence of the enterprises and have a serious impact on economic results in the various trades and in the whole of society.

The notice demands that the leaders of all areas and departments pay great attention to this problem. They must immediately check on and analyze the input consumption and quality situation in their areas and departments and take appropriate measures to rapidly reverse the situation of rising input consumption and failing quality. They should strive for a relatively big improvement in economic results in the next few months.

CSO: 4006/923

INDUSTRY

BRIEFS

XINJIANG INDUSTRIAL PRODUCTION INCREASES--The gross industrial output value of Xinjiang Region from January to August this year was 4,509 million yuan, accounted for 70.45 percent of the quota for this year, and was 26.37 percent more than in the same period last year. Of the total, the light industrial output value was 2,064 million yuan and the heavy industrial output value was 2,445 million yuan, an increase of 29.08 and 24.17 percent respectively over the corresponding period last year. The industrial output value of the enterprises under ownership by the whole people was 3,891 million yuan and the industrial output value of the collective enterprises was 559 million yuan, an increase of 21.63 and 64.41 percent respectively over the same period last year. [Summary] [Urumqi Xinjiang Regional Service in Mandarin 1300 GMT 6 Sep 85]

CSO: 4006/923

CONSTRUCTION

PUBLIC BIDDING CONTRACT SYSTEM DISCUSSED

Beijing JIANGZHU JINGJI [ARCHITECTURAL ECONOMY] in Chinese No 7, 18 Jul 85
pp 14-16

[Article by Jiang Yuan [5592 3293] of Department of Capital Construction Economics of Liaoning Institute of Finance and Economics: "Problems That Require Prompt Solution in Implementation of Contract System of Inviting Tenders"]

[Text] In recent years a contract system of inviting tenders has been implemented for construction projects. It has played an enormous role in shortening the time limit for construction of projects, reducing costs and improving engineering quality and economic results. However, some problems demanding prompt solution have also surfaced. This article will touch on some simple views in dealing with these problems.

I. Correctly Determining Base Bids and Rationally Organizing Competition

Implementing the contract system of inviting tenders, determining base bids and organizing competition in a rational manner is a crucial task. At the moment, the base bids calculated in various localities are primarily based on the standards embodied in pertinent regulations promulgated by departments concerned dealing with the existing budgetary construction norm, budgetary unit price for local materials and construction management fees and independent fees and so forth. Owing to historical conditions and other reasons and also different affiliating relations of existing construction units and the types of ownership to which they belong, there are many standards governing fee collection. For this reason, in determining base bids at present, some places have set several base bids for similar projects based on the fees collected by enterprises at different levels, or have charged fees by using the direct fee as a base bid to be added to fees payable by units winning the bid, according to their grade classification. I personally think this is not a proper way of doing things. First of all, theoretically, it is incompatible with the theory of commodity value expounded in Marx's political economics. "The value of a commodity is determined by the amount of labor-time required to provide that commodity in standard quality." ("Capital," Vol I, p 196). Therefore, the value of an architectural product as a commodity can only be decided by the amount of labor-time in society needed to produce it by numerous construction enterprises through competition and not by the affiliation of the construction enterprises and the types of ownership to which they belong. Second, this method is not too easy to follow.

In recent years, as a result of the opening up of the building market, some collective construction enterprises have continued to improve their ability to transform and develop themselves through competition. There have been noticeable changes in techniques, machinery and equipment and in the level of management. There is no comparison between the present and the past in either engineering quality, the time limit for constructing a project or in reputation. The tremendous superiority is evident in the construction of multistoried housing projects for general use in particular. In Fujian Province, individual collectively owned construction enterprises won Grade Two accreditation in a recent reclassification of technical grades. Some state-owned construction enterprises, on the other hand, barely made Grade Three. Therefore, it does not hold water either in theory or in practice to determine different base bids based on the affiliation of construction enterprises and the type of ownership to which they belong. As far as opportunity goes, all construction enterprises participating in public bidding are equal under the contract system of inviting tenders. Each project can have only one base bid, based on which the best construction unit is selected. This way is conducive to further putting building construction on a commercial basis. With regard to the base bid fees, they should be considered in the light of actual conditions based on the form of architectural structure and whether or not the work is easy or difficult and by taking into consideration the availability of construction forces both inside and outside a province, with fees being charged reasonably within the existing prescribed standards. Only by so doing can we make the construction units improve their operations and management, raise the quality of enterprises and enhance their ability to meet an emergency and to compete.

II. Criteria for Selecting a Construction Unit

The standards for selecting a construction unit have an important bearing on the healthy development of the contract system of inviting tenders. Of late, some places have overemphasized that the main purpose of implementing the contract system of inviting tenders is for reducing construction costs and shortening the time limit for a project. These places do not determine the costs of an architectural product in a rational way based on the principal of deciding the value of a product in terms of the amount of labor-time needed in society for turning out a product of the same category, nor do they set the time limit for a project on the basis of the time limit norm set forth in state documents and in consideration of the time limit achievable by construction with some efforts. Instead, they are taking advantage of the type of competitive bidding in various areas at present where construction enterprises are rushing to "seek rice for cooking," and they arbitrarily emphasize: the lower cost the better, the shorter time for a project the better. This way of doing things is comparable to "going for a galloping horse that does not need to be grazed." It has caused some construction units to make all kinds of excuses after winning bids to increase costs and extend time limits. Worse still, some construction units, for fear of losing money, have violated operational standards and breached construction parameters by doing shoddy work and using inferior materials and building a rough and slipshod way. On the other hand, some construction units in order to meet the time limit have

resorted to unscientific methods by overexerting physical strength and equipment. Practice has proved that this way of doing things to reduce cost and shorten construction time beyond the limits of possibility has caused undesirable consequences at the expense of quality and reputation and brought about bad actual economic results.

The fundamental theory of Marx's political economy has reminded us that the price of commodities is expressed in terms of the value of money. There is only one criterion by which the price of an architectural product is measured as a commodity like other commodities, that is, the value of the commodity itself. "Value represents price law and a generalized expression of a price phenomenon" ("Collected Works of Lenin," Vol XX, p 194). The pricing of an architectural product, therefore, must be in line with the demands of the law of value in the same way other objective economic laws are followed, otherwise, it is bound to have serious consequence. In implementing the contract system of inviting tenders, it is necessary to encourage competition under the socialist system, protecting not only the legitimate interests of the investors but also the legitimate interests of the contracting parties. The marked price and the limit for a project should not be determined on the basis of absolute free competition and subjective initiative but must be determined scientifically and rationally in the light of objective realities. Consequently, the criteria for selecting a construction unit should be a combination of fine quality, reasonable costs and a time limit scientific set for a project. Only in this way can an architectural product show comprehensive economic results of extensive suitability, solid stability, durability and minimum expenses for repairs and maintenance.

III. Establishing an Open Building Market

The purpose of instituting the contract system of inviting tenders is to do away with monopoly and encourage competition under the guidance of the principles and policies put forth by the state, set up a new-type management system that is full of life and vitality to oversee the building industry and open up a new situation in the building industry. However, some regions and departments are still reluctant to open up the building market and the contract system of inviting tenders is applied only locally to keep outside construction enterprises out from competing under various pretexts.

Premier Zhao pointed out in his "Report on the Work of the Government" at the Second Session of the Sixth NPC that: "Under unified state planning and supervision, the unit that contracts with designers and builders will select the best one through public bidding without having to be subject to regional restrictions. We must encourage competition and prevent monopoly." Practices have shown that as commodity production is being vigorously developed and the application of the law of value consciously encouraged at the moment, only by opening up a building market as soon as possible and breaking through urban and rural and regional boundaries and ownership affiliations can we give construction units and units contracted to undertake construction the room to make a free choice and can the construction enterprises tap their inherent potentials and go about improving economic results and put themselves in an advantageous position to compete. This

way will lead construction units toward the competitive road of undertaking risks and paying more attention to economic results. On the other hand, setting up checkpoints and putting up barriers and indulging in monopoly can only bind our own hands and protect the lazybones.

IV. Attention Should Be Paid to Handling Tenders by Invitation and Public Bidding

Certain conditions are required to ensure smooth progress in inviting tenders and public bidding and to achieve the expected results. At the moment, due to the lack of unified management and the necessary rules and regulations, some abnormal ways of doing things are found in some places in implementing the contract system of inviting tenders. As a result, the work of inviting tenders and public bidding is hampered. This state of affairs is found in some places in Fujian due principally to the following: 1. There is no authorized management department to take charge of organization and management. There are no laws and regulations geared to actual circumstances. The contracting of projects through public bidding is done in a variety of ways, each setting its own norm. 2. Conditions for contracting through public bidding are not ripe. Contracting by inviting tenders and opening sealed bids for some projects are done when funds are not even available, design blueprints are incomplete and the whereabouts of materials are not known, and no guarantee is given to the projects or to the time limit for construction, once construction has begun after the public bidding. 3. Public bidding is not done according to the set procedures. The bidding units are not carefully checked for their qualifications and the work of examining base bids is not carried out strictly. In some cases, base bids are not even set and the terms of inviting tenders are altered at will.

To resolve these problems and ensure smooth progress in inviting tenders and public bidding, it is necessary first to strengthen leadership and unify management. Various places should set up authorized management offices to oversee inviting tenders and public bidding and these offices should be responsible specifically for organization and coordination to see to it that all links to inviting tenders and public bidding are in keeping with the state principles and policies and the demands of the state planned economy. Second, the contract system of inviting tenders for construction projects is an organized, planned and guided competitive activity under the socialist system and is built on a scientific foundation. For this reason, this activity should be in keeping with the state regulations governing the contract system of inviting tenders and integrated with the actual conditions in various localities. The local governments should promulgate detailed rules and regulations concerning the contract system of inviting tenders and continually supplement and perfect them in the course of implementation so that the work of inviting tenders and making public bidding can be carried out in compliance with laws and regulations. Third, efforts should be made to check the qualifications and technical qualifications of construction enterprises, carefully classify the grades of enterprises and strictly prohibit the contracting of a construction project by bypassing the immediate leadership so that a project contracted to a construction enterprise is commensurated with its technical grade. This will discourage enterprises, big or small and regardless of grades, from rushing headlong into mass action

in submitting bids for projects. Fourth, public supervision over the quality of construction must be enforced. Importance should be attached to improving quality, organs to supervise and examine the quality of construction should be set up, a system of certification by a third party should also be established and a set of strict rules for supervision and examination should be drawn up to ensure engineering quality.

V. Doing a Good Job in Early-Stage Preparations

One positive significance of promoting the contract system of inviting tenders is to see to it that construction projects progress in line with procedures governing capital construction and that early-stage work is done meticulously. However, judging from the prevailing conditions in some places at present, insufficient attention is paid to these tasks. For some projects, public bidding is invited and contracts awarded in haste without making sure that funds are available, blueprints for construction are complete and jointly checked. For some other projects, public bidding is invited even when procedures governing the requisition of land are not completed and basic conditions are not ready for preparing the infrastructure for construction [involving power and water supply, roads, and site leveling]. Of course, this way of doing things has led to arguments back and forth between interested parties after the start of the construction project with work being done by fits and starts, resulting in failure to fulfill the terms in the contracts drawn after public bidding regarding the time limit for construction, costs and engineering quality.

Only by carrying out public bidding for a project based on the conditions prescribed for the bidding purpose can the advantages of the contract system be put into genuine play. The principal work of a department in charge of capital construction, the construction bank and other relevant departments responsible for the contract system of inviting tenders is to supervise and examine the early-stage preparatory work for construction by concentrating on the following: 1. Preparing and approving capital construction plans, operational reports on construction projects and building permits; 2. making construction funds available and ensuring the supply of funds; 3. completing and examining blueprints for construction without major errors and alterations; 4. guaranteeing supply of goods and materials for construction units; 5. getting ready for requisition of land, dismantling and moving, city planning and "three preparations and one leveling."

VI. Strengthen Management of the Contract System of Inviting Tenders

The contracting system of inviting tenders in essence represents normal economic activities between legal persons engaged in commodity production. Without the binding effect and protection of a contract based on economic laws and regulations, it is difficult to fulfill and honor the responsibility, authority and benefits entitled to the legal persons. The strengthening of management of economic contracts has an important bearing on the smooth progress of public bidding. However, numerous problems still exist in some places regarding construction contracts signed after the submission of public bidding. These problems are chiefly attributed to: 1. The lack of clear

definition as to who should manage the economic contracts. In some areas in Fujian Province, the contracts for some projects are validated by an industrial and commercial administrative department, some are notarized by a notary public, others are either validated by a department in charge of capital construction or by a construction bank. 2. The lack of legal effect in the contracts. Some economic contracts signed for construction are evidently not in keeping with the state policies and rules and regulations. All this eventually brings the problems to light after sealed bids have been announced and construction of certain projects is under way, resulting in disputes over trifles and putting units validating contracts in a dilemma in adjudication.

A contract should have legal effect. In keeping with the state policies and rules and regulations, parties signing contracts must be bound by the terms in the contracts and must fulfill them to the letter without making any changes at will. For this reason, by promoting the contract system of inviting tenders and specifying the offices validating the economic contracts to ensure legal guarantee for the legitimate rights and interests of the contracting parties, we can avoid all kinds of problems of disputing over trifles that have cropped up in implementation of the contract system of inviting tenders.

12662

CSO: 4006/908

CONSTRUCTION

UPGRADING FUNCTION OF CONSTRUCTION FOR HIGHER EFFICIENCY

Beijing JIANZHU [BUILDING CONSTRUCTION] in Chinese No 8, 7 Aug 85 pp 9-10

[Commentary: "Upgrade the Function of Construction To Achieve Higher Efficiency"]

[Text] The formulation of a technical policy in the construction trade is a vital means of implementing the strategic policy of "relying on science and technology to promote economic construction and using science and technology to promote economic construction," and for the achievement of technical progress in the entire construction trade. A matter of great importance to the concerned departments in the construction trade, the formulation of a technical policy is also something that affects the vigorous development of the trade and that merits the heightened attention of the various regions and units.

First, the development of the construction trade calls for the formulation of a policy which in turn calls for a readjustment of the economic policy and reform of the management system. Second, the development of the construction trade calls for technical progress which in turn calls for a clarification and the formulation of a technical policy. The two should supplement and complement one another.

The reform of the construction system and the readjustment of the economic policy have broken the bonds imposed by the rigid pattern of the past and brought significant progress in invigorating the management and operations. A great deal of work has already been done in the formulation of a technical policy and the promotion of technical progress. Since 1983, the Ministry of Urban and Rural Construction and Environmental Protection has been studying and formulating a technical policy. Last year, a group of experts, after a period of investigation and research and having put various proposals to the test, drew up "The Main Points of the Technical Construction Policy" (first draft) covering construction products, construction techniques, construction material and products, construction equipment, construction standards, the extensive use of computers in the construction trade, and the scientific and technical management of construction. Recently, a meeting was jointly convened by the Scientific and Technical Bureau of the Construction Ministry, the Construction Management Bureau and the Planning Bureau on the technical policy in the construction trade to which a number of experts were invited to discuss

in depth the direction for the development of the technical aspects of construction, the technical line and the technical policy in order to facilitate the work of formulating a technical construction policy. At the meeting, the participants, after freely expressing their views and holding an animated discussion, arrived at a concensus. In the course of the meeting, many new ideas were advanced for promoting technical progress in the construction trade and the formulation of a technical policy. This discussion, which fully demonstrated the scientific and democratic aspects of policy making, achieved gratifying results.

The formulation of a technical policy for the construction trade calls for a full appreciation of its importance. It serves as a basis for formulating regulations and plans and as a starting point for the achievement of technical progress. The various internal departments of the trade and the various enterprises must liberate themselves from old ways of thinking and break away from the past practice of placing too much emphasis on construction and production and too little on technical progress. They must direct their efforts toward promoting technical progress, technical reform and the development of new techniques under the guidance of the technical policy.

The formulation of a technical policy calls for making an estimate of the task in hand, understanding the objective and the direction of technical development, an overall analysis and comparison of the economic, social and environmental benefits of various techniques, a firm grasp of what techniques to adopt, what techniques to be put on hold and what techniques to abandon. The macroscopic work of policymaking is of an intricate nature calling for a cautious attitude, sustained efforts, continual perfection and substantiation to promote the technical progress and the development of the entire construction trade.

The formulation of a technical policy requires in-depth study in the special features of the production operations of the construction trade. First, products of the construction trade are of a fixed nature. Production is extremely decentralized. There are many restrictive factors imposed by natural and geographical conditions and people's living habits. Regional factors are such that it is difficult to introduce new techniques, and technical progress is slow. Second, the production of construction materials requires the consumption of large amounts of natural resources. Aside from the relative abundance of labor, there is an acute shortage of such resources as land, funds, energy and intellect. Third, the recovery period for investing in the production of construction materials is extremely long. Such investments must take into consideration economic as well as social and environmental benefits. Fourth, technical progress in the construction trade requires the cooperation, coordination and support of a vast number of fraternal trades. The supply of such products as construction materials, construction equipment and construction machinery by the fraternal trades has a direct effect on production operations as well as the quality and functions of construction materials. Fifth, the management system has, over a long period of time, made it impossible for the construction trade to operate by itself. The various links in the process of production ranging from prospecting and planning, the

supply of materials, the manufacturing of products and the installation of construction equipment have been placed under separate management with hardly any coordination and cooperation. Thus, the construction trade has been in a backward state insofar as technical progress and operations management are concerned. This makes it difficult for the construction trade to play its rightful role in national economic development. We must, in engaging in the work of formulating a technical construction policy, adopt a strategic point of view and acquire a clear understanding of the following basic principles:

1. We must pay adequate attention to the achievement of technical progress in the construction trade as a whole. The various special fields must be developed in a coordinated manner and the weak links must be strengthened. Emphasis must be placed on the creative aspect of construction and on technical progress in construction designs.

2. A standard for the quality of products must be established. Technical progress in the construction trade must be measured by continually upgrading the quality of the final products in housing construction and in continually improving their functions. Improving product quality must be given precedence over technical reforms as a whole.

3. We must determine the direction toward which the industrialization of the construction trade should develop. The construction trade must be reformed in such a way as to meet the needs of socialized production.

4. The technical reform of the construction trade must coincide with national conditions. Attention must be paid to the special conditions prevailing in the various regions.

5. Emphasis must be placed not only on the effectiveness of the production procedure, but also on the overall effectiveness of the construction products.

6. In seeking to achieve technical progress in the construction trade, we must make a positive effort to gain the cooperation and support of the fraternal trades.

In formulating a technical policy, we must probe into the basic overall guiding principles behind technical progress. The basic principles for making technical progress in the construction trade may be summarized as follows: We must take into consideration the actual conditions in our nation and make good use of such assets as land, materials, energy resources, funds and intellect in seeking to improve the final products of the construction trade. We must bear in mind local conditions in adopting new techniques, new technologies, new materials and new equipment, in reforming the technical production and organization structures at various levels, in meeting the needs of socialized production, in accelerating industrialization of the construction trade, and in bringing about the coordinated development of prospecting, planning, materials, equipment, construction, production and management, so as to bring about overall technical improvement in the construction trade in order for it to develop into a vigorous industry in the national economy.

It must be emphasized that, with the development of our national economy and the improvement of living standards, society stands in need not only of increasing amounts of construction products, but also higher standards of quality, serviceability, designs and environment. This is because of the durability of construction products and the fact that a building is expected to last for generations. In formulating a technical policy for the construction trade, we must therefore appreciate the need for upgrading the serviceability of the construction products and their overall effectiveness, making this the linchpin of the entire technical policy. In seeking to improve the serviceability of construction products, we must limit ourselves to China's economic capabilities. In upgrading the functions of housing, for instance, we must, within the set criteria, seek to make better use of the coefficient of area, take full advantage of construction space, and improve interior facilities with special reference to the kitchen and the bathroom, and improve wall and roof insulation. In other words, we must make use of technical progress to improve the functions of housing and to achieve overall effectiveness.

The work of formulating a technical policy for construction is still in progress. Besides revising the draft of the technical policy, canvassing for ideas from various quarters, and making reports to the higher authorities for their consideration and approval, it is important that we direct our efforts toward implementing the policy after it has been promulgated. The various regions and units must, on the basis of the technical policy, draw up their own measures for its implementation. Now is the time to act and to organize the necessary forces to engage in preparatory work in investigating the tasks at hand and in making forecasts. After the promulgation of the technical policy, we must seek to achieve a degree of stability within a certain period of time. In implementing the policy, we must intensify our work of investigation and research, identify problems in good time and make supplementary additions to the technical policy and revisions to construction projects. Only thus can the guiding role played by the technical policy be developed to its fullest extent.

9621

CSO: 4006/895

CONSTRUCTION

COMPLETION OF PYRITE MINE REPORTED

Guangzhou NANFANG RIBAO in Chinese 2 Jul 85 p 1

[Article by Correspondent Yu Yuehua [0151 2588 5478] and Reporter Fan Renren [5400 0117 0088]: "Construction of Pyrite Mine in Yunfu County Is Basically Completed"]

[Text] A dry run was made yesterday afternoon at the high-grade crushing plant and the ore dressing plant at the Yunfu pyrite mine, presently the largest in the nation and capable of producing 3 million tons of ore annually, thus signifying the basic completion of the construction of the mine.

Present at the test run yesterday were Kuang Ji [0562 0679], deputy governor of Guangdong Province, and those in charge of the Chemical Industry Department and the concerned provincial departments.

It has been ascertained that the Yunfu pyrite mine has reserves of over 200 million tons and that the average pyrite content is 31.04 percent. A key construction project in the nation, its construction was officially begun in early 1979. The entire work of ore stripping, one of the major works of engineering, has been completed. The pyrite face at the mine is being worked layer by layer and long stretches of the ore body are being laid bare, thus making it possible for large-scale mining of the ore by machinery. The major engineering work of crushing the high-grade ore and gleaning the lean ore has also been completed. Furthermore, the narrow-gauge railway from the mining area to the wharf at Liudu in Si Jiang with the capacity of carrying 500,000 tons of assorted freight annually has already been put into operation. The work of laying the tracks for the 32.5-km projected special railway from the mining area to Yao Gu is also expected to be completed before the end of the year. The work of supplying water and electricity and the amenities of life has also been basically completed. According to the plan, a loaded trial run will be conducted on 1 October and production will begin next year on a trial basis. After it has been officially put into operation, the mine will be capable of producing 3 million tons of ore or 2.4 million tons of standard ore, and will bring to the state profits amounting to over 50 million yuan annually.

9621

CSO: 4006/884

CONSTRUCTION

LARGE CEMENT PLANT SOON TO BE BUILT IN GUANGZHOU

Guangzhou NANFANG RIBAO in Chinese 3 Aug 85 p 1

[Article by Reporters Liu Jun [0491 6511] and Tong Shiyi [4547 2457 1942] and Correspondent Lin Guiming [2651 0948 2494]: "The Zhu Jiang Cement Plant Will Soon Be Built in Guangzhou"]

[Text] Funds have been raised by Guangzhou to import a complete set of advanced equipment of 1980's standards to build the Zhu Jiang Cement Plant in the city. Technically, it will be the most advanced in the nation. A contract will be signed officially with foreign businessmen today, and ground-breaking and construction will soon take place. After the completion of construction in 1988, the plant will be capable of producing 1.2 million tons of good-quality and high-grade cement annually, thus serving to bridge the gap between the supply and demand of high-quality cement in our nation and to promote the development of our capital construction projects.

The Zhu Jiang Cement Plant will be built on the bank of the Ba Jiang at Tanu Mao'ergang in Huaxian. With an annual production capacity 3 times that of the Guangzhou Cement Plant, it will be the largest in the province. Involving as it does an investment of over 400 million yuan, it is another large-scale imported project in recent years following the earlier construction of the petrochemical plant in Guangzhou.

The production line imported from Denmark is capable of turning out 4,000 tons of cement clinker a day by making use of the decomposing technique outside the kiln and is of the advanced standard of the 1980's. Highly automated, it wastes little heat. The entire process of production is centrally controlled. Its rotary furnace, a key equipment, is controlled by the fuzzy logic computer system so that furnace operations are automated. The consumption of coal for each ton of product is only half the amount of that consumed by the Guangzhou Cement Plant.

The cement industry in our province has been developing at a rapid rate in recent years. However, much of the product is turned out by erect furnaces, and good-quality, high-grade cement produced by spinning furnaces constitutes only 14 percent of all the cement produced. For this reason, the cement used for such projects as the construction of high-rise buildings, bridges and expressways is not sufficient to meet the demand. The construction of this

cement plant will bridge the gap between the supply and demand of good-quality and high-grade cement in Guangzhou and the entire province. The contract was signed on both sides by the representatives of the China Technical Import Head Co, the Guangzhou Foreign Trade Head Co, the Preparatory Construction Department of the Zhu Jiang Cement Plant in Guangzhou, and the Smidts Co of Denmark.

9621

CSO: 4006/884

FOREIGN TRADE AND INVESTMENT

SWEDISH FIRMS TO COMPUTERIZE SHENYANG

Stockholm DAGENS NYHETER in Swedish 6 Sep 85 p 12

[Article: "Jan Freese Has Sideline in China. Major City To Be Computerized"]

[Text] "This may mean a transaction of between 10 and 15 billion for Swedish companies. It may give our computer industry and our software companies a boost into the 21st century."

Jan Freese, head of the Computer Inspection, is responsible for this optimistic prognosis. As a kind of sideline, he was given the assignment of opening up cooperation with China, which means, among other things, that Swedish companies are going to computerize a whole city--Shenyang with 5.2 million inhabitants in northeast China.

For several years the Computer Inspection has maintained a good relationship with China. Recently the Chinese organized their own Computer Inspection and, as late as last June, a Chinese delegation visited Sweden.

"At the time their Vice-minister Li gave me three so-called letters of intent. He is the head of a committee for the technological development in the country, located in Beijing, and therefore has an influential position," says Jan Freese.

Modernizing

"The most detailed of the three letters concerns Shenyang. A vast modernization using computer technology is visualized: traffic control systems, radio communication systems, medical and administrative systems, information systems, political and commercial command systems and a great concentration on education in the computer field."

"Of course, all of this costs an enormous amount of money--compared to what it has cost us. Shenyang is not much smaller than Sweden."

The other two letters of intent are less detailed but commercially at least as extensive. The Province of Jiangsu with 60 million inhabitants is interested in help in the area of education and in systems for business management and administration, CAD/CAM, etc.

Work Group

"As far as I can understand, the Chinese are seriously interested in doing this kind of business with us. I have seen many letters of intent--but never one as detailed and well developed as the one we received from Shenyang," says Jan Freese.

"The reason for my involvement is merely that I have had good relations with the Chinese before. During informal talks we have touched on commercial questions and I have asked them why they buy so little from Sweden."

"They asked me to write a memo about what Sweden would be able to offer and I did. Evidently it fell into good ground."

12339

CSO: 3650/338

FOREIGN TRADE AND INVESTMENT

GUANGDONG'S NEW MEASURES TO BOOST EXPORTS

Beijing GUOJI SHANGBAO [INTERNATIONAL BUSINESS] in Chinese 8 Jul 85 p 1

[Article by Wang Yixia [3769 0181 1115] and Zhu Fucheng [2612 1381 2052]:
"Unify Thinking and Create Confidence; Liang Lingguang Discusses Guangdong's
New Export Measures"]

[Text] At the Guangdong Provincial Foreign Economic Trade Work Conference on 29 June, the governor of Guangdong, Liang Lingguang [2733 7227 0342], emphasized that comrades engaged in economic trade throughout the province must unify their thinking, create confidence and strive to complete this year's export quota.

During his speech Liang Lingguang pointed out that every foreign trade bureau must make boosting exports the emphasis of their work. Regardless of when they were established and their size, every trading enterprise must make a contribution to completing the province's export quota. Toward this end the province will adopt some new measures:

A. To perfect organizations and enhance administrative controls: The provincial foreign trade committee decided to reestablish foreign trade bureaus in each prefecture and city to ensure fulfillment of this year's export quota. Comrades who were originally engaged in foreign trade administration must rejoin their units in principle. If certain companies that were set up by the foreign trade bureaus of each prefecture and city in the previous stage cannot continue due to the recall of administrative personnel, they must resolve to be cancelled.

B. To be unified toward the outside world and uphold price controls at the highest for imports and lowest for exports, respectively: Foreign trade bureaus everywhere must conscientiously undertake supervision and examination responsibilities and enhance their administrative controls over foreign trade. With reference to licensed and allocated goods, licenses must be applied for according to regulations and goods exported in accordance with the figures for allocation. Unlicensed and supra-allocated exports must be strictly prohibited and goods that are lower than the price controls are not allowed to be exported. Moreover, it has been decided that as of 10 July voucher exports will be implemented for rice flour, rice wine and canned dace in order to protect the reputation of the large volume of exports from

Guangdong to Hong Kong and Macao and the international market. The provincial government has decided to verify and register all existing exporting enterprises throughout the province. All importers and exporters will be examined and approved by the provincial government. In the future, exporters of an industrial nature will not be reexamined and those that are approved must clean up their acts. Except for those enterprises that have been approved by the economic trade bureau and the provincial government, no others are permitted to be exporting agents of provincial resources in the SEZ's of Shenzhen, Zhuhai and Shantou and the economic development zones of Hainan Island, Guangzhou and Zhanjiang. Revenues from exporting agents of provincial resources in these areas will retain a portion of the foreign exchange profits according to central government and provincial regulations. Agents exporting goods to other provinces using Guangdong's allocations and licenses must remit a portion of their foreign exchange earnings to the province.

The concrete steps for ensuring the completion of this year's provincial plan for foreign exchange earnings from exports are:

1. All enterprises authorized by the Provincial People's Government to engage in exports are responsible for the state's export plan and earning foreign exchange. The provincial economic trade commission must strengthen its supervision and urging of various exporters and investigate them one by one. Exporters cannot "only export without earning foreign exchange."
2. All enterprises responsible for the state's export plan and earners of foreign exchange via exports should enjoy treatment equivalent to that given to the specialized foreign trading companies. Industrial and agricultural trading companies that belong to local trading organizations must be treated equally and without discrimination. They should be given foreign exchange to support production in accordance with the export plan. The sovereignty of industrial and agricultural trading companies is unchanged.
3. Foreign exchange allocations to trade bureaus must really be used well and in an enlivened way to nurture exports via imports.
4. We must accelerate the turnover period of foreign exchange. The provincial economic trade commission recently published a third fund recall notice. The commission agrees with the Foreign Exchange Administration Bureau and the Bank of China that those who fail to return their funds upon expiration will be forced to have overdue fines deducted from them.
5. According to the proportion of foreign funds retained for profit stipulated by the state, we must stress giving foreign funds to exporters. Prior to the end of July exporters must calculate the proportions of retained profits to be given to producers and suppliers for the first 6 months of the year and fulfill their commitments to the concerned departments. In the future we must strive for a quarterly reckoning of foreign exchange retained profits.
6. We must energetically organize linkages for raw materials urgently needed by exporters of goods and materials and producers.

7. Under the premise of encouraging every city, prefecture and county and various kinds of exporting enterprises to ensure completion of the state's export plan, we must actively arrange for extra-plan exports. Exports of goods above and beyond the plan must register for examination and approval by the leading group of the provincial foreign trade commission. Foreign exchange retained profits above and beyond the plan for exports are available for use.

12615

CSO: 4006/865

FOREIGN TRADE AND INVESTMENT

EXPORT GROWTH, NOT IMPORT CUTS KEY TO FOREIGN EXCHANGE WOES

Beijing GUOJI SHANGBAO [INTERNATIONAL BUSINESS] in Chinese 8 Jul 85 p 1

[Article by Wang Jian [3769 1696], abridged from DUIWAI JINGMAO YANJIU [FOREIGN ECONOMIC TRADE STUDIES]: "Actively Earning Foreign Exchange Via Exports and Maintaining a Foreign Exchange Balance--A Preliminary Analysis"]

[Text] In 1984 the state of China's national economy was better than ever before. Gross industrial output value increased 13.6 percent and financial income increased 18.8 percent over the year before. Both increases were the largest in 1 year since 1978. Nevertheless, it should be recognized that to a large degree national economic growth depended upon increased foreign investment. According to calculations from the relevant data, in 1984 additional imports allowed industrial output to rise by approximately 3 percent, or more than one-fourth of the new increase in gross industrial output value. The imports allowed financial revenues to increase 4.6 percent, or one-fourth of the increase.

Last year, at the same time that the economy was greatly expanding, the growth rate of foreign exchange expenditures from trade far exceeded that from foreign exchange revenues. The state's cash surplus plunged rapidly. Considering the situation this year, the state is still able to support a relatively large foreign exchange deficit and support domestic economic growth because it still has some foreign cash on hand. Yet such a situation should be changed in the Seventh 5-Year Plan. This brings up a problem. In order to maintain a foreign exchange balance the state must adopt restraining measures and keep expenditures for imports strictly in line with the pace of export revenues, thereby slowing down the pace of economic growth. Yet falling domestic output may result in falling financial revenues. If an appropriate alleviating measure cannot be found, expanded financial deficits will give rise to price rises and then prompt floating export costs, compelling exporters to reduce or even halt production of some exports and creating a further drop in foreign exchange income. These factors will force the state to reduce imports further, leading once again to reduced and slowed economic growth. Therefore the foreign exchange problem is the major unsettled factor regarding economic growth during the Seventh 5-Year Plan. Resolving it has become an urgent task.

The key to resolving the foreign exchange problem during the Seventh 5-Year Plan and thereby stabilizing economic growth is to further implement the policy of opening to the outside and to readjust methods of implementation.

China has adopted a series of policies and measures to encourage imports of technology and the utilization of foreign funds since opening to the outside. Under these new circumstances, foreign exchange revenue must increase dramatically because an enormous amount of technology and equipment is awaiting renovation and upgrading in China and the need for imported technology and equipment is rising sharply.

Importing technology has expanded China's productive power. We must rely on imports if domestic raw materials do not correspond to the growth or are unsuitable for use with the imported equipment. Actually, once it goes into production, almost every importation project requires imported raw materials, semi-finished goods, and spare parts. Even producing goods as substitutes for imports is no exception. For example, importing metallurgical equipment as a substitute for imported steel requires us to import ore. Introducing an electrical appliance assembly and production line as a substitute for whole products requires us to import spare parts. Thus, technology imports also precipitate a demand for other goods and materials. The need for them sharply rose, and further increased the pace of foreign exchange expenditures once there were more import projects.

Moreover, some new situations are detrimental to increasing foreign exchange revenues:

1. Exported goods face acute competition. This is because it is easy to utilize imported technology to open up domestic markets but difficult to promote additional exports. Furthermore, because of different domestic and foreign pricing systems, industrial goods are cheap abroad and expensive in China. Such a discrepancy often results in high profits in China and low profits abroad for goods sold utilizing imported production techniques. These two factors promote a tendency to produce goods for domestic sale and a disinclination to develop exports.

Nevertheless, equalizing enterprises that produce goods for domestic and for foreign sale is the way to implement a general transformation of domestic firms. To do so objectively means first concentrating limited foreign funds to transform enterprises that produce goods for domestic sale and denying the funds to exporters. Thus, the growth rate in foreign exchange revenues cannot increase.

2. The proportion of projects introduced for domestic sale is too large, as is the proportion of raw materials imported only for domestic markets. To expand the one-third of China's exports that involve the processing of imported materials for reexport, we must increase imports of raw materials. Next is the contradiction brought about by producers of goods for domestic and foreign markets competing for imported raw materials. Because the discrepancies in Chinese and foreign pricing systems favor the development of goods for domestic sale, when foreign funds are short some units consider only the financial revenues of their own areas and units and give priority to imports of raw materials to supply producers of goods for domestic sale. This can hinder or even arrest the expansion of exports.

The above circumstances inevitably result in a steadily growing foreign exchange deficit. To fundamentally address the foreign exchange balance issue we must study and adopt appropriate measures. Nevertheless, although measures adopted simply to reduce imports can achieve a foreign exchange balance, they can also ignite fluctuations in economic growth. This is not the best plan. An absolutely safe method is to energetically promote exports and earn more foreign exchange. Under the present conditions whereby there is too little foreign exchange, we must encourage additional exports, concentrate foreign funds, and emphasize production techniques and equipment to transform exporting enterprises. This implies that we must greatly reduce or even basically halt the introduction of projects that produce goods for the domestic market, and strive to "utilize technology imports and stress the transformation of exporting enterprises."

Concentrating foreign investment to transform exporting enterprises will stimulate additional foreign trade. Because the relationship between foreign exchange expenditure and revenue involves production of exports, it cannot engender a foreign exchange balance of payments deficit. On the contrary it can bring about a surplus. If we predict that foreign exchange revenues will increase then we can augment some current foreign loans to balance foreign exchange revenue and expenditure, support projects that produce goods for domestic sale that have already been introduced, and halt fluctuations in economic growth. In view of China's national conditions, the key to amassing foreign exchange to transform exporting enterprises during the Seventh 5-Year Plan can be first of all to improve the quality, grades and degree of processing traditional exports. Moreover, we must pay attention to utilizing imported technology to readjust the export product mix. We should give special emphasis to gradually increasing the proportion of electronics exports.

Additional exports also represent increases in the domestic value of output; they can promote domestic economic growth. Because the basis of this kind of economic growth is in a balance of foreign exchange revenue and expenditure, it cannot give rise to considerable unstabilizing factors, which derive primarily from overseas, that is, as changes in external markets. The gross value of China's exports currently is approximately 5 percent of the gross industrial and agricultural output value. If it were doubled during the Seventh 5-Year Plan that still would not be more than about 10 percent. There is a limit to the influence that external market changes can exert on the domestic economy. We can promptly regulate their influence and minimize the negative effects as much as possible. Of course, importing technology to transform exporting enterprises is not a matter of showing hands. It will not be easy at all to expand China's export markets in the fiercely competitive international marketplace. Thus, growth of export trade and changes in the export product mix during the Seventh 5-Year Plan may not occur quickly. Their role as promoters of economic growth is limited. Yet this external method of promoting economic growth by opening to the outside is more stable and solid and offers better ramifications than any current method.

The principle of amassing foreign exchange to emphasize the transformation of exporting enterprises does not exclude direct transformation imports when necessary for certain key state projects in urgent need at home. But we

cannot make the opening too large. It must be controlled. In particular, before there is a turn for the better in the foreign exchange balance of the Seventh 5-Year Plan we must implement strict import controls.

From the end of the Seventh 5-Year Plan until the end of this century is the take-off period for China's national economy. The transformation of China's enterprises will continue during this stage. Moreover, following developments in the world's new technological revolution, the pace of renovating and upgrading the existing imported technology will accelerate. These factors determine the foreign exchange balance and they have long-term effects. Thus, promoting increased exports and encouraging domestic growth and technological progress are not just expedient measures. They are fundamental strategic measures that will be appropriate for a long time to come.

12615

CSO: 4006/865

FOREIGN TRADE AND INVESTMENT

PATENT BUREAU DIRECTOR ON RESPONSE SINCE PATENT LAW

Beijing GUOJI SHANGBAO [INTERNATIONAL BUSINESS] in Chinese 8 Jul 85 p 1

[Article by Cao Shaojiang [2580 1108 3068]: "Patent Bureau Opens with Great Success; Interview with Huang Kunyi, Director of the Patent Bureau of China"]

[Text] "I have heard that patent applications have jumped in the 3 months since the Patent Law and Detailed Rules and Regulations went into effect 1 April. I congratulate you on opening with great success." On 5 July this reporter interviewed Huang Kunyi [7806 0981 4135], director of the Patent Bureau of China, concerning implementation of the patent law. Mr Huang described the situation over the last 3 months in detail.

"You could say that we did open with great success. By the end of June we received 7,086 patent applications. Of these, inventions accounted for 63.4 percent, practical new models 33.3 percent and exterior designs 3.3 percent. Foreigners submitted 2,171 of the applications, or 30.6 percent. Of these, 2,007 were inventions, 52 were practical new models and 112 were exterior designs."

This reporter asked Director Huang Kunyi to describe what these figures mean.

He said, "When I recently met with a senior official of the Patent Office of Japan he said that the first year in which Japan implemented the patent law it only received 225 applications. In 20 years since, it received 5,000 applications. (Hao-yi-sai-er), director of the Patent Bureau of the FRG said that he originally estimated that China would receive 5,000 applications in the first year but he never thought that there would be that many in the very first month. Our international friends have expressed approval that a huge 69.4 percent of the applications have been domestic ones. They feel that the Chinese people really have a great creative spirit, implying enormous creative and inventive potential.

"The practice of these 3 months has calmed the fears of some comrades. Some originally thought that few people in China would apply, so they worried that the patent law would only protect the inventions of foreigners. They also worried that there would be few applications for invention patents, but there are actually quite a few.

"We can say that work over the past 3 months is only a prelude and that the full play and most of the work is yet to come, so we must remain level-headed. Quite a few applications came from abroad, and the trend is rising. This indicates the strong attraction of China's improving economic situation and the open door policy and the international welcome for China's patent law. People praise China's patent law as being modern. Questions regarding specific details and the application process and procedures are increasing. Nevertheless, it should be noted that many people still want to observe further whether China's Patent Bureau has the ability to make scientific and fair examinations of the applications. Second, they want to see whether China's judicial organs are capable of just decisions when patent disputes arise. Third, they want to know if they can reap material rewards from implementing proprietary techniques here and whether they can walk away with the money they earn. I would like to borrow this esteemed newspaper for a moment to tell our international friends and colleagues not to worry. They can see our determination in setting up a society ruled by law from the fact that China is actively undertaking economic legislation right now.

"Establishment of the four modernizations requires a large volume of technical imports. Opening to the outside is China's long-term national policy, and there is a lively future for technical trade. We are determined to handle technical trade according to the law and based on the principle of reciprocity and mutual benefit. The Patent Bureau has completed preparations and is beginning to investigate patent cases. We are hoping to announce some decisions within a year. We want to earn international confidence through accomplishments in our work."

Once the interview ended, Director Huang repeated that he was happy to have the chance to use this journal to introduce to our international friends the situation regarding implementing the patent law and new ways of thinking in our work, and to allow those at home and abroad to better understand China's patent situation.

12615

CSO: 4006/865

FOREIGN TRADE AND INVESTMENT

FOREIGN TRADE GROWTH, PROFIT-LOSS MANAGEMENT DISCUSSED

Beijing GUOJI MAOYI WENTI [INTERNATIONAL TRADE JOURNAL] in Chinese No 3, Mar-Apr 85 pp 15-20

[Article by Xiang Yin [5046 0995]: "China's Foreign Trade Growth Rate and Profit and Loss Management"]

[Text] The rate of economic growth is a very important question. In today's world, as the world economy becomes more integrated and advances are made in science and technology each passing day, and foreign economic and technological exchanges are continuously expanding, these changes are of important and real significance with reference to the development of China's national economy, improvements in the labor productivity rate and the realization of the four modernizations. They allow China to maintain a rather rapid foreign trade growth rate.

For China's foreign trade to develop further, the first problem we must resolve is profit and loss from foreign trade while considering how to handle the relationship between the country's expanding foreign trade and managing profit and loss. There are differing opinions in China as to how to solve this problem. Some comrades think that the quicker the growth rate of our foreign trade, the larger the foreign trade deficit. They advocate reducing the growth rate to improve "economic results." Some comrades even go so far as to advocate that "it is better to lower the growth rate, but still have high results." In 1984, the foreign trade export plan was reduced 17 percent below that of the previous year in order to reduce the deficit under the influence of this kind of thinking. It is the author's opinion that these opinions and methods are worth discussing. The following superficial points are offered as a preliminary study of this problem.

I. The Thesis That Practice Cannot Prove That Foreign Trade Deficits Expand in Line with Growing Foreign Trade

China has had three foreign trade deficits since 1953 when independent accounting was implemented by foreign trade departments. The first was in the late 1950's and early 1960's; the second in the 1975-76 period and the third began in the early 1980's. Looking at the actual situation during the time of these three deficits, the growth rate of China's foreign trade was not at all rapid. On the contrary the three deficits occurred during periods of stagnant, falling and wavering foreign trade growth.

In 1959 China's imports reached \$4.38 billion, the highest level of the 1950's. Then in the 1960-62 period, foreign trade dropped for 3 years in succession. After 1963, foreign trade rose slightly until 1965 but still never resumed the 1959 level. China's foreign trade basically stagnated or fell during the 7 years from 1959 to 1965. Except for 1961, the other 6 years in this period all showed a deficit. China's second deficit was in 1975-76. Foreign trade wavered at the time. A comparison of the two years finds that in 1975 total import trade rose 1.2 percent but in 1976 fell 8.9 percent from the 1975 figure. Since the beginning of the 1980's our foreign trade has had four successive deficit years. The total deficit figure for this period is much higher than during the previous two periods. Although China's foreign trade definitely grew during these years, increases in the import trade were unremarkable. During 1981, 1982 and 1983 China's import trade wavered around \$40 billion without making much headway. The average growth rate from 1980 to 1983 was only 2.5 percent regardless of the pace of development. In addition, a prominent characteristic of the 1980's deficit was that import losses accounted for the largest proportion of the foreign trade deficit. From 1981 to 1983 China's import trade showed losses amounting to 55.18 percent of the entire foreign trade deficit. Considering the state of China's foreign trade growth during this period, in general exports grew slightly and imports tended to fall. In 1980, our import trade was worth \$19.55 billion. In 1982, it fell to \$17,478,000,000 and in 1983 rose to only \$18.53 billion. From the foregoing, it is obvious that in general terms, there is no basis for the theory that China's foreign trade deficit expanded in line with growing foreign trade.

The first half of 1984 proved that this theory is unscientific. In the first half of 1984 China's export trade was \$11.4 billion, an increase of \$1.4 billion, or 14 percent, more than the same period in 1983. The export trade volume rose 11.4 percent if we exclude price changes. China's import trade was \$8.46 billion, an 11.7-percent increase in trade and a 10.6-percent increase in the volume of trade over the same period in 1983. Managing foreign trade losses did not increase even though imports and exports both maintained a rather high rate of growth; on the contrary various foreign trade financial management indices improved and increased quite a bit over the same period in 1983. Compared to the previous year, the foreign trade deficit was reduced 60.55 percent, export costs fell 0.31 [sic; probably 31 million] yuan, foreign trade storage costs fell 4.47 billion yuan, available floating capital fell 3,819,000,000 yuan on the average, the frequency rate of capital turnover rose from 1.21 to 1.5 times and the level of circulation costs for export commodities fell from 8.55 to 8.47 percent, providing an increase of almost 600 million yuan to the state from tariff income.

II. The Major Causes of China's Three Trade Deficits Were Changes in the Price of Commodities on the International Market and Adjustments in the Domestic Price of Commodities

A foreign trade deficit is the financial expression of the outcome of foreign trade in terms of currency. Here, in addition to the inherent value of a commodity and factors of a management nature, the price value of a commodity expressed in terms of currency has an extremely important role. China has implemented a separate domestic and foreign pricing policy in foreign trade for a long time. Due to the role of the law of value in the international sphere,

our import and export commodities must be bought and sold on the international market according to international market prices. In China on the other hand, export resources are bought according to the state's uniform pricing plan, and ordering and using departments are allocated imports according to state pricing regulations. We lack the essential linkages between the foreign selling price of exports and the domestic purchasing price, and the foreign selling and domestic allocation prices of imports. Therefore, any change in prices on the international market or prices of domestic goods can directly affect changes in the management of profits and losses in our foreign trade. We will have a foreign trade deficit when changes in commodity prices on the international market are unfavorable to our imports and exports, or when domestic price adjustments are unfavorable to foreign trade and foreign exchange rates cannot react on time. China's three foreign trade deficits occurred for the most part under such circumstances. The main real reasons are:

1. Export incomes are less when changes in international market prices are unfavorable to China.

The first deficit: Prior to 1957 the international market price of most commodities, particularly raw materials, had a tendency to rise due to the post-war economic recovery and the industrial upsurge in the world's capitalist countries. This was extremely favorable to our exports at the time. Nevertheless, the first economic crisis since World War II erupted in the capitalist countries in 1957 and 1958. Prices for various commodities tended to fall in the depression following the crisis. This change was unfortunate for the developing countries. Exports of agricultural and sideline products and raw materials from developing countries were terribly hurt. The price of raw materials in 1960 fell approximately 10 percent from 1958. If we take the 1970 export price index as 100, in 1957 the export price index from developing countries rose to 101. In 1958 it fell to 96. It stayed at 96 in 1959 and fell to 89 in 1962. This kind of price change on the international market reduces China's export income and makes for a relative increase in export costs. When international market prices fell, to the advantage of domestic ordering and using departments' incomes, we could not use the change to remedy the increased losses to exporters because at the time we used an agency-price method for allocating imports. Therefore foreign trade departments saw a direct increase in their losses.

The second deficit: Prices for some commodities on the international market fell following the crisis in the capitalist world during 1973 and 1975. This was unfavorable to our foreign trade. The foreign selling prices of some of our major, large-scale export goods fell significantly and export incomes dropped. In this period, taking the general price index of China in 1970 as 100, the index fell from 206.6 in 1974 to 198.2 in 1975 and to 186 in 1976.

The third deficit, from 1980 on: We will not consider any factor but the falling oil prices on the international market. In 1983, we earned several hundred million less U.S. dollars in foreign exchange and had several billion yuan less profit from petroleum exports.

2. Export costs increase when domestic price adjustments raise the purchase price of exports.

In the late 1950's and early 1960's China's economy saw serious setbacks, proportional dislocation, agricultural crop failures, increased currency issued, outstanding contradictions between social supply and demand, and social purchasing power far exceeded the supply of goods because of mistakes in our work and natural disasters. Currency issuance increased 1.4-fold and bank loans increased more than two-fold at the end of 1962 as compared with the end of 1957. At the same time, the savings of urban residents dropped 40 to 50 percent. Too much currency was issued, creating a rise in prices. During the Second 5-Year Plan, the retail price index nationwide rose 25.5 percent and the agricultural and sideline product purchasing price index climbed 33.9 percent. Domestic prices rose as did foreign trade export purchasing prices, which was one of the causes of China's first foreign trade deficit.

The prices of goods produced by some domestic industrial and agricultural enterprises were adjusted following the 3d Plenum of the 11th CPC Central Committee in order to reduce their price scissors. The prices of these goods have been successively adjusted upward since 1979. Compared to 1978, the 1982 agricultural and sideline product purchasing price index rose 41.6 percent. Domestic price adjustments increased export costs, thereby increasing export losses to foreign trade departments. According to the estimates of foreign trade departments, in 1983 China's export costs increased 0.08 yuan for every \$1 because of higher domestic purchasing prices. This increase alone meant a loss of several additional 100 million yuan.

3. Export costs increase when the export commodity mix is adjusted and exports increase.

Major characteristics of China's domestic pricing system are that raw material prices tend to be low and the prices of industrial finished goods tend to be high. In this kind of pricing system, changes in the export product mix greatly affect the fiscal losses of foreign trade departments.

China's state economy had a troubled period during the late 1950's and early 1960's. We adjusted the foreign trade product mix quite a bit so as to respond to the sudden occurrence of the situation and pull through the difficulty. We simultaneously reduced exports of agricultural and sideline products and imported some cotton and other production materials. We developed the processing industry using client materials, exported finished or semifinished goods, earned processing fees and guaranteed currency supplies to import grains and other goods essential to daily life by utilizing the productive power of the domestic light and textile industries. Thus, the proportion of light and textile goods rose and the proportion of agricultural and sideline products fell in our export product mix. Exports of agricultural and sideline products accounted for 37.6 percent of our exports in 1959. In 1962, the figure dropped to 19.4 percent while the figures for light and textile goods rose from 41.9 percent in 1959 to 53.3 percent in 1962. After the 3d Plenum of the 11th Central Committee and developments in domestic industry, China's finished industrial goods developed quite rapidly. Machinery and equipment exports increased rather greatly. In 1980 the export figure for our machinery and

transportation equipment was only \$851 million. The figure doubled in 1981. In 1982, it doubled again from the 1981 figure. Since 1981, the proportion of finished goods has exceeded that of primary goods in our export product mix. The proportion is continuously increasing while the proportion of primary products is correspondingly falling.

Foreign trade departments can profit, or at least lose less, by exporting agricultural and sideline goods and other primary products while exporters of light and textile goods and other finished goods may sustain considerable losses because of the state's pricing policies. These changes to China's export product mix in the late 1950's, early 1960's and since the 1980's are unfavorable to the profit and loss accounting of foreign trade departments. They are also an important cause of these two deficits.

4. Changes in the domestic allocation and pricing methods of imports have major impact upon foreign trade departments' profits and losses.

For a long time China has practiced basically unitary accounting of imports and exports in our foreign trade, and profits and losses supported each other. Therefore, changes in the pricing methods of imports directly influence profits and losses for the ordering and using departments.

In the 10 years from 1953 to 1963, China's domestic-allocation pricing system for imports was entirely arbitrary. Of the foreign trade departments handling imports, some set prices according to the producer prices of similar domestic goods, some according to domestic commercial allocation list prices, some based on import costs plus additional expenses and others on the actual exchange rate of exports. Prices were set by foreign trade departments as importing agents sometimes according to the imported C.I.F. price, sometimes according to the C.I.F. price plus handling charges. The same commodity had many different prices because of the confusion in pricing. This was bad for interdepartmental fiscal accounting as well as for uniformly arranging and allocating imported materials. In December 1963 the State Council promulgated the "Provisional Regulations for the Uniform Pricing of Imported Goods." They became the new method of pricing effective as of 1964. The new regulations provided that: as far as possible, imported goods shall be priced for allocation according to the domestic prices, regardless of the place of origin of the goods and the end-user; if no similar goods are produced in China or there is no nationwide uniform price for similar goods produced in China, imported goods shall be priced according to the C.I.F. price plus customs tariffs, the consolidated industrial and commercial tax and all other expenses encountered for arrival at a domestic port in China; an allocations charge of 103 percent shall be added to such imports based on the C.I.F. price when the foreign trade and domestic using departments settle accounts. After this method went into effect, the portion of importing profits that originally went to the orderers and users was turned over to the foreign trade departments, thus changing their deficit status. Foreign trade departments lost 500 million yuan less in 1964 thanks to the new regulations. After 1966 the situation changed to one of surplus. Thus, China's first deficit problem in the history of our foreign trade was solved.

Based on the contemporary situation in 1975, the State Council decided to reduce the allocations charge on imports to 60 percent from the original 103 percent.

China's foreign trade departments then experienced their second deficit after this move. In 1977, there was no choice but to raise the proportion of the allocations charge to 80 percent; this mitigated and solved the second deficit problem.

To meet the needs of enlivening the domestic economy and the open door policy, and to further arouse the enthusiasm of various areas and departments to develop foreign trade, the State Council decided to further reform the pricing of imports and to adopt new methods as of 1981. The profit and loss structure of China's foreign trade then experienced a great change: export losses turned into profits. In 1981, foreign trade departments saw the highest export surplus in history while profits from imports turned into losses. Because of pricing and foreign exchange fluctuations as well as other factors on the domestic and international markets in subsequent years, export profits have fallen or even become losses. Thus another loss appeared in the entire balance of foreign trade book value. This loss was related to the change in domestic pricing of our import and export trade.

III. Reform the Domestic Pricing System and Accelerate the Growth Rate of China's Foreign Trade

From the foregoing it is apparent that the main causes of changes to foreign trade profits and losses in China are fluctuations in international prices and domestic price adjustments. There is no direct cause and effect relationship between foreign trade losses and the size of them, on the one hand, and the growth rate of foreign trade, on the other. Reducing the foreign trade growth rate cannot solve the deficit problem. To accelerate the growth rate of our foreign trade and to bring into full play foreign trade's role of promoting state economic growth and construction of the "four modernizations," we should make earnest analyses and studies, clearly determine the primary and the secondary, stress key points, reform the domestic pricing system and thoroughly solve deficit problems in the domestic and foreign pricing systems that objectively exist.

We cannot avoid an irrational foreign trade balance of payments because the domestic and foreign pricing systems that objectively exist are entirely different and unrelated. This kind of an irrational balance of payments cannot accurately reflect the real state of foreign trade departments' and enterprises' business. The problem cannot be solved by reforming the foreign trade administration system, simplifying policies and granting authority, separating policies and enterprises, or making enterprises responsible for their own profits and losses. We also cannot simply link the domestic and international markets and have identical domestic and foreign prices by adjusting domestic prices in line with changes in prices on the international market. Resolution of this problem requires a great amount of meticulous work together with a full reform of the entire state economic system and the domestic pricing system because there are many irrational factors in the domestic and international pricing systems and because there is a rather large difference between the Chinese and international labor productivity rates.

For a long time on the world market, the developed capitalistic countries utilized their own political and economic power to intentionally make prices

deviate from value and grow in their own favor to earn more profits from international deals. Current international market prices are extremely irrational. This is mainly seen in that: price changes for goods cannot reflect the reality of changes in value. Price changes favor developed countries over the developing. The rate of exchange for goods between developed and developing countries is extremely unreasonable and the situation in developing countries will not improve for quite a while. Many factors account for the unreasonable world market pricing system, including the influence of colonial pricing left by history and current political and economic factors. The most fundamental cause is still the difference between labor productivity rates and economic strength. The resolution of this problem cannot be achieved in a day or by any particular country. It requires an unremitting struggle by many third world countries on the basis of economic development.

The primary irrational factor in China's domestic pricing system is seen mainly in various irrational price relationships. This mainly includes: irrational parity between industrial and agricultural goods. Prices of agricultural goods tend to be low and prices of industrial goods tend to be high. The industrial goods sector's parity is irrational. Some raw and other materials and fuels tend to be low-priced while some industrial and processed goods tend to be high-priced. Parity in the agricultural and sideline products sector is also irrational. Income from aquatic breeding and animal husbandry is greater than from raising, and the income from raising cash crops is much greater than from food crops. The energy sector's parity is irrational too. Profits from using various energy resources differ greatly. Various price differences are not handled sufficiently reasonably. State subsidies are too large and the burden is too heavy. Many factors account for these irrational components of the domestic pricing system. Some are intentionally arranged by state policies, some are historical remnants, some are the conscious application of economic laws and some are mistakes in our work due to unfamiliarity with or neglect of economic laws. These irrational components of domestic pricing have had many bad influences on the growth rate of the state economy. They are disadvantageous to the development of the entire state economy in a planned and proportionate way, to the correct appraisal of economic results from production, to business and investment by various departments and enterprises, to conserving raw materials and fuels during production, to improving the value of goods and to developing the necessary and rational competition between enterprises. These factors have also had a major influence upon the development of China's foreign trade. Rather large profits can be earned from handling the import and export of some goods, while handling others means bearing rather heavy losses because of pricing factors. Some enterprises earn enormous profits while others sustain huge losses because of the different divisions of labor. Surpluses are not entirely due to improvements in business management and deficits cannot be entirely blamed upon bad management. This situation is disadvantageous to motivating the enthusiasm of all enterprises to develop foreign trade. This problem will be more obvious and the contradiction of unequal profit distribution among enterprises will be more pointed once enterprises are responsible for their own profit and loss. Thus, we must thoroughly study the problem and immediately begin an overall reform of the domestic pricing system.

A reform of the domestic pricing system means rationalizing the parity of various commodities (including labor), appropriately raising the prices of agricultural and sideline products and raw materials, appropriately reducing the prices of some industrial and processed goods, appropriately raising the wages of staff and workers, and reducing state subsidies and indebtedness, based on the demands of the laws of value. The reform should also include an adjustment of foreign exchange rates and a rational adjustment of the parity between the RMB and foreign currencies, based on the difference between Chinese and international labor productivity levels to make the foreign exchange rate reflect this difference and to give full play to the policies that promise rewards and curb limitations. To allow all foreign trade enterprises to compete as is necessary and fair on a rather rational basis, promote improved business management and improve the level of business, we should also appropriately merge the domestic and foreign prices of imports and exports once domestic price relationships improve. To allow all foreign traders to be profitable and to motivate the enthusiasm of all departments and enterprises to develop foreign trade, the state should give play to the administrative roles of various economic measures and utilize fiscal and taxation policies to adjust the allocation of profits among departments and enterprises prior to improvements in domestic price relationships.

In sum, it is easy to solve the problem of an irrational foreign trade balance of payments under present circumstances, provided that we earnestly understand the major contradictions of the domestic pricing system reform. China's foreign trade will grow quite rapidly provided that the irrational balance of payments problem is solved and domestic economic development and labor productivity increase.

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CSO: 4006/940

FOREIGN TRADE AND INVESTMENT

BRIEFS

NATIONAL MEETING ON PATENTS--Dalian, 16 Aug (XINHUA)--The first 50 to 60 patent applications, classified and examined by China's new patent office, will be published in September, according to a national meeting on patents which is in session here. They will be approved by the end of this year. By the end of July, China's Patent Bureau had received 8,400 applications. The country's first patent law was put into effect on April 1. The total volume of applications for patent rights is expected to reach 12,000 to 15,000 by the end of this year. About one third of the applications received came from 30 countries and regions including Japan, the United States, Federal Germany, the Netherlands, Britain, Switzerland and Hong Kong. At present, China has 4,400 licensed patent agents and another 1,500 are being trained. [Text] [Beijing XINHUA in English 1042 GMT 16 Aug 85 OW]

USSR TO ATTEND BEIJING TRADE FAIR--Visitors to the coming Asian-Pacific International Trade Fair in Beijing will have the opportunity to see the largest Soviet pavilion set up in China in the last 30 years, (Shibakov), head of the Soviet pavilion, told station reporters. The fair, with the expected participation of 25 countries, will open in Beijing in mid-November. (Shibakov) said: Fourteen all-union corporations under the Soviet Ministry of Foreign Trade and seven corporations under the State Commission for Foreign Economic Relations, as well as the Soviet Academy of Sciences and State Commission for Foreign Tourism will take part in the Beijing fair. Soviet-made vehicles, aircraft, laser equipment, new machine tools, books, and scientific instruments will be displayed. [Text] [Moscow Radio Peace and Progress in Mandarin to Southeast Asia 1100 GMT 31 Aug 85]

CSO: 4006/957

LABOR AND WAGES

REFORM OF WAGE SYSTEM DISCUSSED

Kunming JINGJI WENTI TANSUO [INVESTIGATION OF ECONOMIC PROBLEMS] in Chinese
No 4, 20 Apr 85 pp 11-14

[Article by Liu Tongde [0491 0681 1795]: "Characteristics of the Current Phase of Distribution According to Work and a Look at Wage System Reforms"]

[Text] The wage system is the concrete and legal form of remuneration for labor. How can labor and remuneration be unified? It is necessary to proceed from the reality of the present phase of socialism and correctly understand the characteristics of the present phase of distribution on the basis of labor as well as the appropriate means of labor remuneration. It is necessary to study and formulate criteria concerning the unification of labor and remuneration. Only then can the wage system be truly reformed.

I. Review Experiences and Lessons, Correctly Understand the Characteristics of the Present Phase of Distribution According to Labor

To successfully carry out wage reforms according to the principle of distribution on the basis of labor, it is first necessary to clarify the following points.

A. The primary cause, egalitarianism: Distribution on the basis of labor as envisioned by Marx was to be carried out directly by society under conditions of highly socialized production, abundant necessities of life and no currency. Workers had only to rely on a "labor document" to select a quantity of goods from among society's consumer product reserves that correspond to the time worked and, in this way, unify production and distribution. The unity of labor and remuneration is "simple and clear," it is not necessary to once again go down that circuitous and tortuous road.

However, victory in our country's revolution was won under semifeudal semi-colonial conditions. The level of development of productive forces is not high; from manual work to mechanized work, development has been very uneven. Moreover, production relations are characterized by diversified economic methods and numerous administrative levels. We cannot "consciously use the labor force of numerous individuals as a social labor force" (Capital" Vol 1, p 95). The scope and extent of the coordination of workers and the means of production are very different as are labor results. If we only take

into account natural labor time to "calculate the amount of joint labor carried out by each labor producer and thereby also calculate the amount of personal consumption of joint goods by individual producers" (Ibid., p 96) so as to implement a wage system reckoned by time and rank, it will have no relation to labor results. There will be direct distribution by the state to individuals, which will obliterate the distinction between labor quality and quantity and inevitably give rise to egalitarianism. This will lead to separation between production and distribution, and labor and remuneration will become divorced from each other. This is the principal cause and problem underlying the inability of China to correctly implement the principle of distribution on the basis of labor in the wage system.

B. The lack of a fixed model for distribution on the basis of labor: Those conditions for distribution according to labor as envisioned by Marx not only do not exist in China, they do not exist in any other socialist country. Thus, in terms of the current reality of each socialist country, there is no fixed model for implementing the principle of distribution on the basis of labor. Although each socialist country has distribution on the basis of labor, conditions in each country vary, the economic systems and levels of production are all different, and it cannot be denied that each has its own special features. Therefore, we cannot mechanically apply the experiences of each country. We must proceed from our own reality.

C. Characteristics of China's present phase of distribution on the basis of labor:

1. Distribution on the basis of labor must be coordinated with the different forms and different administrative levels of the consolidated labor system. Workers jointly possess the means of production--this is the basic shared feature of socialism. It is the premise underlying the implementation of distribution according to labor. It is necessary to distinguish the characteristics of different phases and determine the scope and extent of the coordination of workers and the means of production. In the union of free men envisioned by Marx, workers and the means of production are the immediate integration of all society. The labor force, means of production and products are all distributed by this union; there is only one administrative level. During the present phase in China there exist two systems of ownership, state ownership and collective ownership. Distribution on the basis of labor has to be carried out by means of the consolidated labor system which consists of different structures and different administrative levels. In a collective economy workers and the means of production are directly integrated yet their scope is small. In the system of state ownership, the extent of nationalization is great and the scope is large. The means of production are owned by the state. Since implementing economic reforms, enterprises have used self-raised funds to purchase equipment and there is a dual nature to the integration of workers and the means of production. Yet, regardless of whether there is direct or indirect integration, workers have the right to use and manage the means of production. Enterprises are an economic entity of consolidated labor, each having its differences. They make up the second administrative level. In order to resolve the problem of big and medium-sized rice bowls,

after linking distribution with the quality of business and the size of contribution, not only is it necessary to acknowledge differences among enterprises, but also differences among workshop teams and groups. Only then can we carry out distribution on the basis of the amount of labor actually performed by each person. This process of distribution shows that state distribution of consumer products to individuals is not direct but must go through the intermediate levels of enterprises, workshop teams and groups, etc. This is the current reality of economic reforms. Moreover, following the overall implementation of substituting taxes for profits, after further expanding enterprise autonomy, enterprises may freely select a wage system and distribution method. The existence of administrative levels in distribution according to labor will become even more striking.

At present, regarding the implementation of economic reforms, there are two characteristics in the existence of administrative levels in distribution according to labor. First, the state and the labor union make up the immediate administrative level that determines individual distribution. Because management offices and all joint companies are linked to material benefits, disparities have already appeared in the distribution of bonuses and the transfer of funds at one's own expense. They are the indirect link that determines individual distribution. However, following the thorough implementation of economic reforms, the differences between areas, departments, businesses and companies will increase and their role in determining distribution will grow. Second, in all the administrative levels involved in distribution according to labor, the level playing the major role will vary depending on conditions. For example, the first level plays a major role in state agencies and some public agency units while the second administrative level plays a role in enterprises. As for all joint companies, it will be determined according to circumstances. For example, in the Chongqing Clock and Watch Industrial Co there are three administrative levels in consolidation and management. On the first level the whole company is responsible for profits and losses and the company, of course, determines distribution. The second level consists of independent accounting. The enterprise assumes sole responsibility for profits and losses and it is primarily the enterprise that determines distribution. The third level is loosely linked to other parts of the country; the company plays no role in distribution. The above-mentioned conditions demonstrate that in China's economic structure consisting of numerous administrative levels, there are many aspects to the factors involved in determining distribution. Only by not engaging in "arbitrary uniformity" is it possible to conform to the reality of China's present phase of distribution according to labor.

2. The integration of distribution according to labor with the economic results of each level and the labor results of each individual. At present there exists a diversified economy in China as well as commodity production and commodity exchange. Distribution according to labor still must rely upon the intermediaries of commodities and currency in exchange for an equal amount of labor. Because these intermediaries exist, the distribution of consumer products to individuals is roundabout and circuitous. Corresponding objective standards are needed to resolve the problem of equal pay for equal work.

Take for example the goods produced by workers. The necessary labor time is expended in the labor process, and distribution based on the measurement of the social average amount of labor for products should be rational. However, during the process of exchange some products cannot be sold and cannot be converted into value. It is necessary to deduct this invalid labor. Only then will it be possible to implement distribution. At the same time there are also problems involved in implementing distribution purely with commodity value as measurement. In particular, at present under circumstances of serious deviation in price and labor value, some profits are low, some high. Moreover, market price still fluctuates with the supply and demand relationship. For this reason some enterprises make a profit and others lose money. This does not correspond to actual labor expended, therefore, only by adopting a product tax rate to carry out readjustment and deducting "unequal" factors is it possible to correctly implement distribution. In summary, when implementing distribution according to labor, there are all sorts of problems involved in making assessments in isolation on the basis of certain norms. It must be linked up with general economic results on the basis of the final results of labor. Once value created by valid labor minus "unequal" factors is distributed according to individual labor, we can then better achieve unity of labor and remuneration. Here we are talking about the whole; however, the criteria of measurement used for different products, businesses and types of work in production must be determined by practical experience. Current practical experience shows that by establishing a wage contract based on the enterprise and 100 yuan production value and determining wage amounts based on output of coal and cigarettes (tons, cartons), many enterprises have linked gross wages and the tax rate, both of which increase synchronously according to a specific proportion. Their experiences have been successful. It is evident that this has facilitated calculations, comparison, evaluation and results. This is a significant objective criterion for measuring the unity of labor and remuneration.

For a long time the basic problems of China's wage system have not been linked to economic results and the fruits of labor. One problem is that labor productivity has increased while wages have not risen for a long period of time. Another is that over the past few years increases in wage levels have been greater than increases in labor productivity. This has led to a split between labor and remuneration and it has not stimulated production. At the same time, engaging in across-the-board wage increases during the period of centralization is also not a good method. This approach would make it difficult to correctly integrate labor and remuneration. In view of this situation, China's wage policies must be implemented without letup so that the level of increased capital will grow along with production value, profits and financial income according to a proportion. Only then can the unity of labor and remuneration be achieved and only then can the principle of more profits for more work and fewer profits for less work be implemented.

3. Distribution on the basis of labor must be combined with the various forms of the responsibility system. How are we to bring about equal remuneration for equal amounts of work? Lenin suggested: "The entire question consists of doing equivalent work while correctly observing work standards and obtaining

equal remuneration" ("Selected Works of Lenin" Vol 3, p 258). However, for a long time in China there has been no fixed number of staff in enterprises, no labor norms, no work standards, and hiring has taken place without examination and assessment. All this has led to over-staffing. To change this situation it is necessary to set work standards for each department, business, job classification and each position. We must establish an integrated responsibility system consisting of responsibilities, rights and benefits at each level so as to connect production (work), tasks and wage amounts. Then, based on the extent of labor results, we can determine benefits by responsibilities. We can both correctly deal with the relationship between the state and enterprises and we can resolve the problem of eating out of one big rice bowl that exists between enterprises and among workers within an enterprise. This is the key to achieving unity between labor and remuneration, it incorporates the distinctive features of Chinese socialism, and it is an effective measure for implementing distribution on the basis of labor.

As for establishing the various forms of the responsibility system, after being applied for several years, the forms of the responsibility system are numerous: the family contract system on state-run farms, the system of economic responsibility in industrial enterprises, the business contract system in commerce, the contract with consideration system in scientific research units, the comprehensive objective and position responsibility system implemented by state agencies and public agency units, the professional position responsibility system, the technical contract system of responsibility, the responsibility system associated with economic norms, etc. All of these serve to clarify duties and obligations: they establish work standards and the scope of labor so that the individual's economic benefits are closely tied to collective results and individual contributions. This in turn facilitates inspection, assessment and correctly implementing the principle of distribution according to labor. It will continue to raise labor and work efficiency and promote socialist modernized construction.

II. The Wage System Must Embody the Characteristics of Distribution According to Work

A. The principal problems in implementing the wage system and the direction of reforms: In implementing China's wage scale system, there are many standards, and the gap between high and low is great. Furthermore, all the wage standards are like an inverted pagoda, that is, the differential coefficient base is small and the top large. This bears no relation to reality in China. This wage system is contrary to reality; more work does not lead to more profits. The reason may be as follows. The basic problem is that wage criteria are not based on the nature of work but rather on the wage amount determined by businesses, production, departments and their subordinate relations. The results are numerous, complex, chaotic and rigid so that labor and remuneration are not linked. At present in order to carry out thorough reforms, it is necessary to proceed from the reality of numerous administrative levels in China's productive forces and correctly differentiate the different types and characteristics of labor. At the same time, based on the different kinds of labor and the physiological characteristics of workers,

when formulating a differential coefficient for wage standards, we should have a high minimum wage for manual laborers who work in mine pits, field exploration, logging, etc. The differential coefficient should have a large base and the top should be small. As for skilled workers who work on machinery, in textiles or in smelting, the differential coefficient should be shaped like a gourd, the two ends small and the middle large. As for mental workers, it is generally shaped like an inverted pagoda, the base small and the top large. However, regardless of what kind of worker, the state must set wage levels. There should be fluctuating level in the wage standard for enterprises since there is a direct link between labor and the quality of business. Thus, it will be based on economic results and the quality of labor results. Everyone will get their due. In terms of the system, resolving the problem of treating good work and bad work as one will contribute to correctly implementing the principle of distribution according to work.

B. Labor remuneration must correspond to the characteristics of distribution according to work; it is necessary to map out a current wage system based on the reform of the four administrative levels: In the past few years China's distribution system has followed the direction of economic reforms. During the process of integrating the economic responsibility system and the bonus system, a "floating wage" system has been implemented which involves classifying awards and the breakdown of minor standards, calculating awards according to production, profits, and costs and designating as floating wages a portion of standard wages or the entire body of wages. Some still implement "wage breakdown," that is, wages may be broken down into basic wages, occupational wages, annual merit wages, living wages, etc. This has caused labor remuneration and labor results to become integrated and it has destroyed the "big rice bowl." At the same time, while promoting the various forms of the responsibility system in order to correspond to the characteristics of production, numerous kinds of wages have appeared: the position wage system, the contract wage system, the share wage system, the occupational wage system, the piecework wage system, the work-point system, etc. This has broken through the unitary hourly wage scale system and provided practical experiences for fully reforming irrational wage relations. In particular, after eliminating the practice of "imposing a ceiling" in making awards, the state implemented the wage taxation method. This will encourage the further implementation of the various forms of the responsibility system within enterprises, revive the issue of distribution and correspond even more to the principle of distribution according to work. Consequently, the reform of the wage system must conform to trends. It must summarize and upgrade the wage system so that it becomes systematic and institutionalized; only then will it benefit the development of production. Based on the characteristics of distribution according to work and on practical experiences in economic reforms, a form of labor remuneration has been worked out according to the four administrative levels which will reform the current wage system.

In the first administrative level various structural wage systems are implemented which give priority to position for administrative management personnel and professional technical staff. The state uniformly carries out distribution. Position is used in the broad sense; department head and office head

are both positions, as are section members, clerks and cooks. The various forms of the position responsibility system are regarded as the basis for formulating work standards and the scope of labor. Then, based on the size of tasks, the difficulty of work, the content of work and the level of education and technology, positions are classified so that each is divided into two to five different grades. The higher and lower levels are intersecting. The maximum and minimum wages for each position are predetermined. An individual's wage consists of four parts, namely, the basic wage, the annual merit wage, the position wage and awards. The position wage makes up the largest proportion. The wage standards are uniformly set by the state and, after consideration and assessment, promotions take place at fixed times.

The second level consists of large and medium-sized enterprises, posts and telecommunications, railroads, etc. in which ordered plans are implemented in order to control national economic lifelines. The second level is the principal direct level responsible for industrial production and establishment and the circulation of commodities. It is a relatively independent economic entity. In order to reinforce enterprise vitality and fully develop the initiative, ceativity and enthusiasm of enterprises and staff, their wage income should be linked to enterprise economic results. Thus, it is necessary to see that gross wages fluctuate proportionately with economic results. Industrial enterprises generally may link gross wages to taxes and profits remitted. Single product enterprises may link gross wages to the end product. Communication and transportation enterprises may link gross wages to turnover volume or distance freight volume. Commercial services can link gross wages to taxes and profits remitted but it is still necessary to examine supplementary standards such as scope of operations, variety, quality of services, expense rate, etc. After resolving the relationship between the state and enterprises, based upon the amount of gross wages, enterprises may voluntarily select wage standards and distribution methods for increasing wages of staff and workers.

The third level consists of small state-run industrial and commercial enterprises in which, in terms of management, there may be state ownership, collective financing, independent accounting and responsibility for profits and losses. After paying taxes to the state according to regulations, enterprises may carry out various kinds of remuneration and determine, of their own accord, a distribution method. The state makes no provisions concerning when to allocate capital or what the level of increased capital should be.

The fourth level consists of service industries that have a contract system and those with family contracts and individual rental contracts which are under unified enterprise management. According to contract specifications, individual wage levels fluctuate according to the quality of individual labor: the more work the more profits, the less work the fewer profits.

C. Reform the management system. After reforming the current wage system in view of the four aforementioned levels, corresponding reforms must be made in the management system. As far as the state is concerned, first it is necessary

to use the tax rate to regulate the relationship between the state and enterprises and to ensure growth of national revenue along with output value, profits and national income. Tax departments will become the principal supervisors of labor wages. Second, the state is primarily concerned with guidelines and policies. The state is responsible for generally unified wage standards and wage levels as well as related problems of economic norms in gross wage contract fluctuations and even specific wage standards and distribution methods. Rights are transferred to a lower level and each level is responsible for another level so as to benefit reviving the wage system and correctly implementing the principle of distribution according to work. Third, labor personnel departments are primarily responsible for carrying out the method of fluctuating gross wage contracts. The fluctuating gross wage contract refers both to enterprises and to contracts between the state and provinces and between provinces and local counties and enterprises. It is a comprehensive management norm for the wage system, wage level and wage form. It is linked to national income and related to production for consumption. It is also linked to overall enterprise economic results and the gross wage level and is correlated to individual labor effectiveness and consumption levels. Consequently, implementing fluctuating gross wage contracts is a valid management method for correctly implementing distribution according to work and for reviving the wage system. It is necessary to earnestly review experiences and improve upon them so as to benefit the successful reform of the wage system.

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CSO: 4006/872

LABOR AND WAGES

BRIEFS

XIANNIAN CONGRATULATES LABOR SERVICE--A sales exhibition of products of the All-China Labor Service Company opened in Beijing yesterday. The exhibition is being sponsored by the Ministry of Labor and Personnel. On display are nearly 10,000 items from 18 categories, including textiles, home electrical appliances, and chemical engineering and machinery products. In this connection, President Li Xiannian sent a congratulatory message to the ministry expressing the hope that work of the All-China Labor Service Company will be further improved. [Text] [Beijing Domestic Service in Mandarin 2230 GMT 1 Sep 85]

CSO: 4006/925

TRANSPORTATION

JIEFANGJUN BAO ON DEVELOPMENT OF CHINA'S 1ST AIRSHIP

HK250829 Beijing Zhongguo XINWEN SHE in Chinese 0912 GMT 23 Aug 85

[Article by Ma Xiaoyi [7456 2556 3015] selected from 19 August JIEFANGJUN BAO: "Zhang Chuhong and his Airship 'Xihu'"]

[Text] In 1984 when the opening ceremonies of the Olympic Games in Los Angeles were being televised, many people saw airships for the first time. However people did not know that China's first airship--"Xihu"--had already flown into the sky 80 days before the Olympics opened in Los Angeles!

The maker of China's first airship is an exserviceman called Zhang Chuhong, who is now director of the Institute of Physical Chemistry in Linan County.

Zhang Chuhong was transferred to civilian work in November 1978 after working as a technician in an air force unit for almost 30 years, where he had gained rich experience and learned Russian and English by himself. He had also compiled an 800,000-character book on aeronautics. He has been [a] member of the China Society of Aeronautics, the China Society of Mechanics, and the China Society of Metals.

At the beginning of 1983, as the only member of the China Society of Aeronautics in Zhejiang Province, Zhang Chuhong was invited to take part in the work of gathering information concerning the development of airships and take part in the consultative work concerning the project by the relevant department. But later, the project was cancelled. In March of the same year, Zhang Chuhong attended the 3rd annual meeting of the China Society of Aeronautics in Xian. At the meeting, Zhang Chuhong listened to the academic reports, learned the latest information, talked with people who were also involved in the same work, and had discussions with those with lofty ideals, all of which aroused the strong desire in Zhang Chuhong to try his best to "open up" the "virgin land" in China's aeronautic science--the development of airships!

Airships are pioneers in the development of modern aeronautics. In the 19th century, airships flew in the blue skys of either shore of the Atlantic Ocean. But they were soon replaced by the faster airplane. They disappeared for quite some time. Now, airships are again beginning to attract people because of the rapid development of science and technology and the shortages of energy.

Zhang Chuhong immediately started the work. He carried out investigations in Shanghai, Nanjing, Guzhou, Hangzhou, and some other places for five months and carefully studied the design of the airships, the structure of the gasbag, the source of gas, the technological process of the development of the airships, and some other questions.

On 2 September 1983, the project to produce China's first modern airship started in a small and simple research institute in the mountainous area of western Zhejiang. The work was difficult.

The rubberized fabric for the gasbag must be very cohesive, but China does not have this kind of rubberized fabric. Zhang Chuhong himself made the prescription and asked others to produce it.

The project needed a large quantity of rubberized fabric and Zhang could not find so much of it. So he went all over the city of Hangzhou, analyzed hundreds of types of cloth and finally chose one type of nylon silk fabric. Then he carried out an experiment by putting glue on the nylon silk fabric. The result was good, then he asked the factory to produce the rubberized fabric according to his method.

The engines of an airship must be very good. After repeated experiments and comparisons, Zhang finally found a good type of engine.

After half a year of hard work, a big olive-shaped gasbag, which is 36 meters long and whose greatest diameter is 10 meters, was finally produced and almost all the parts of the airship cabin had been basically installed. But, just before the trial flight, a strong wind blew away the airship which was filled with gas. When they finally found it on the mountain, [the gasbag] and the propellers were broken.

Zhang Chuhong immediately organized the people to repair the gasbags and sent people to a place thousands of kilometers away to get propellers and asked them to return within four days.

On the evening of the fourth day, the people returned with the propellers. Zhang Chuhong smiled: The test flight could be carried out on schedule.

On the early morning of 4 May 1984, at the foot of Mount Guanyin in the suburbs of Linan County of Hangzhou City, Zhejiang Province lay a huge olive-shaped monster. China's first modern airship--"Xihu"--was waiting for its first test flight.

Zhang Chuhong insisted on flying the airship himself although the people around opposed this because it was a dangerous flight. Would the airship be able to take off or not? What would happen when it was airborne? Would it be able to land safely...? All these things were unknown. Under such circumstances, Zhang Chuhong was certainly not willing to let somebody else fly the airship.

Zhang Chuhong arrived at the test-flight grounds, put on the safety helmet, and calmly climbed into the cabin. Then he gave a signal and the airship "Xihu" took off immediately.

Rising, reaching the estimated flight altitude, turning, flying into the wind, flying with the wind..., Zhang Chuhong steadily operated the airship and the airship performed well in its movements. Then the airship began to descend from 200 meters in the sky at a steady rate. Suddenly, a side wind blew up, the big airship hit a high-voltage wire pole and there were sparks flying off in all directions.... The crowd on the ground was frightened, but soon the airship floated away lightly and finally landed on the ground safely.

Zhang Chuhong sat flat in the cabin, exhausted, recalling the thrilling scene: The airship received an electric shock, but no fire broke out and no one was injured. This showed that the airship's insulation was good and safe. He went out of the cabin and said quietly to the cheering crowd: "We have succeeded."

The news of "Xihu's" successful test flight aroused concern from all sides. Hangzhou Airship Development Company would soon be founded. Hongqiao Hotel of Shanghai was willing to become the first one to use airships to carry tourists and was prepared to leave a space on the top of its new building so that airships would be able to land on it. A peasant from Yongjia County, Zhejiang Province came to pay 50,000 yuan in cash as a down payment to buy airships because he was planning to establish a household enterprise specializing in airship transport. The Hubei provincial section in charge of the construction of electric power projects also sent people to buy airships several times and made a plan to use airships in the construction of power lines.

Zhang Zhuhong was not intoxicated by his initial success. He continued to take part in the tests for short-distance take-off and landing, loaded take-offs, fixing its position, wind-resistance, stopping the engine at a high altitude, and so on and so forth. From May last year to February this year, Zhang and his comrades-in-arms carried out a series of tests and acquired a large amount of valuable data concerning the first airship flights in our country thereby accumulating valuable materials for China's airship development cause.

In March, this year, the leading comrade of the State Scientific and Technological Commission came to see Zhang Chuhong in Linan County and extended support and congratulations to him. At the end of April, as a specially invited representative of the all-China local civil airship research society, Zhang Chuhong was warmly welcomed in Kunming. The professors of some aeronautical institutes and engineers of some plane-making factories warmly shook hands with Zhang Chuhong and said: "It is really amazing that the ideal we have had in our minds for several decades has been realized by you in such a short period of time."

In his report to the Zhejiang Provincial CPC Committee, Zhang Chuhong set a new task for himself: To develop the present household-type airship production into an open scientific research and production combination and to commercialize airships within two years.

TRANSPORTATION

YUNNAN MEETING URGES ACTION ON TRAFFIC ACCIDENTS

HK240617 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 23 Aug 85

[Excerpts] The provincial traffic safety committee held a telephone conference on the evening of 23 August. Governor He Zhiqiang and (Yang Biliang), director of the office of the provincial traffic safety committee and director of the provincial communications department, made speeches. The meeting called on communications departments at all levels, staff and workers on main transport lines, and the masses living along roads to take immediate and urgent action to rapidly reverse the situation of numerous serious road accidents in the province.

The meeting pointed out: There has been a continual increase in traffic accidents this year due to failure to sufficiently study or understand the new problems that have arisen in the new situation and lack of strict control and effective measures. The number of road accidents in the province from January to July rose by 20.5 percent over the same period last year, while the economic losses rose by 41.2 percent. The meeting called for the following measures:

1. Enhance understanding of the importance of strengthening traffic safety controls and strengthen leadership over this work.
2. Strengthen ideological and political work and safety education for the staff and workers.
3. Implement and strictly enforce rules and regulations. In the future those who violate traffic safety rules and regulations must be dealt with severely. The leaders of the units concerned must also be held accountable.
4. Step up traffic safety inspection and supervision.
5. Strengthen control over licenses and straighten out traffic order.
6. Strengthen safety controls over households specializing in transport and over other mechanized and non-mechanized vehicles.

CSO: 4006/923

TRANSPORTATION

BRIEFS

INTERNATIONAL CONTAINERIZED CARGOES CIRCULAR--The State Economic Commission, the Ministry of Communications, and the Ministry of Foreign Economic Relations and Trade recently issued a joint circular to improve international containerized transportation in the Shanghai area. The circular calls on the Shanghai and Tianjin port authorities to enforce the regulations concerning containerized transportation on the Sino-American route beginning 1 September. The circular says: Exporters and importers of containerized cargoes between Shanghai and Tianjin ports and the United States and Canada and ships arriving at Shanghai and Tianjin ports after 1 September must follow the regulations concerning containerized transportation. There are the three ways of delivering containerized cargoes: One, they are delivered at the container wharfs with the containers unopened. Second, they are opened at the transport stations and delivered without the containers. Third, they are delivered at the cargo owner's warehouse with the containers unopened. Cargo owners may choose one or two combined ways of delivery. The circular calls on those who have already signed trade contracts to revise the letter of credit by specifying that the regulations concerning containerized transportation will be followed in deliveries. All containerized cargoes should be delivered according to the regulations. Chinese and foreign ships on the Sino-American route that do not follow the regulations will not be allowed to load or unload cargoes in Shanghai and Tianjin ports after 1 September. [Text] [Beijing Domestic Service in Mandarin 1200 GMT 29 Aug 85]

CSO: 4006/923

HONG KONG MEDIA ON CHINA

CHINESE, BRITISH NEGOTIATORS FAIL TO RESOLVE AIR ROUTE IMPASSE

HK060533 Hong Kong SOUTH CHINA MORNING POST in English 6 Sep 85 p 1

[Article by Daniel Chung]

[Text] Beijing, Sep 5--Chinese and British negotiators have failed to agree on a new treaty for air services between Hong Kong and cities on the mainland.

The four day Sino-British aviation talks ended in the Chinese capital today with negotiators promising to resume their talks "as soon as possible," but amid signs that all did not go smoothly.

Indications are that, while the two sides agreed on the need to increase air services between Hong Kong and China, they are at odds as to how these additional flights should be apportioned between China's national airline and British carriers based in Hong Kong.

It was confirmed that the British delegation's request that Cathay Pacific Airways be allowed to operate scheduled services to Beijing went unheeded by China.

It is understood the British side did not include Dragonair, Cathay Pacific's infant competitor, in its negotiations for a redress of what it calls a gross imbalance in air services between Hong Kong and China.

A joint statement issued as the talks ended said the two delegations considered how best the demand for travel between Hong Kong and China's inland cities could be met and agreed additional capacity was required.

"The British delegation expressed the wish that Cathay Pacific Airways should be designated to operate scheduled services between Hong Kong and Beijing in addition to its existing services between Hong Kong and Shanghai.

"The Chinese delegation noted this wish of the British delegation," the statement said.

An analyst said China, which initiated the talks clearly would rather allow Cathay Pacific to operate a few charter services on the Hong Kong-Beijing route than to operate scheduled services.

And China was unlikely to give away much in terms of the imbalanced air services issue, he said.

Officials in Hong Kong attribute the imbalance to the fact that the Chinese authorities look on Hong Kong in a different light to cities in other countries.

The Civil Aviation Administration of China (CAAC) currently operates 59 services each week to Hong Kong and London, compared with only five China services by Cathay Pacific and British Airways together.

On the Hong Kong-Beijing route, CAAC operates scheduled daily flights while Cathay Pacific has only one charter flight a week.

The British authorities have already approved three Beijing charters weekly for Cathay Pacific, and had hoped to negotiate for conversion of these into scheduled services.

But Cathay Pacific's application to take up the rights for the additional charters was rejected by the Chinese authorities on the eve of the talks.

The Chinese move followed the Hong Kong government's decision to turn down an application by the China-backed Dragonair to operate charters to Beijing and Shanghai.

The talks, shrouded in secrecy, were apparently not as smooth as some had expected although the statement by the British said discussions were held in "a friendly and cordial atmosphere."

The statement expressed confidence "that they could through friendly consultations reach mutually acceptable arrangements fully consistent with the spirit of the joint declaration (on Hong Kong's future) and the Civil Air Transport Agreement (of 1979), which would furnish services to meet the growing public demand for air travel."

It said the two delegations recognised that the joint declaration would create additional demand for travel between Hong Kong and inland cities of China, which would contribute to the prosperity and stability of Hong Kong.

A news dispatch from China's official news agency however, did not include the terms "friendly" or "cordial."

A CAAC spokesman told the SOUTH CHINA MORNING POST the timing for the next round of talks has not yet been discussed.

He said the talks will resume at a time considered appropriate by both sides.

CSO: 4020/367

HONG KONG MEDIA ON CHINA

HONG KONG AIRLINE AGAIN DENIED CHARTER FLIGHTS TO BEIJING

HK130624 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 13 Sep 85 p 1

[Article by Robert Mayerson]

[Text] Dragonair faced its second thumbs down in a month yesterday when the Civil Aviation Department [CAD] again rejected the carrier's application for charter services to Beijing and Shanghai.

The decision leaves Hong Kong people with few alternatives to the state-owned Civil Aviation Administration of China on services to the Chinese capital in the near future.

China last month withdrew permission for Cathay Pacific to increase its Beijing charter service in what was widely seen as retaliation for the CAD's first rejection of Dragonair.

Yesterday's decision is already being interpreted as evidence of failure of the first test of Sino-British co-operation over Hong Kong since the Joint Declaration was signed last year.

The two sides--Chinese authorities apparently backing Dragonair and the CAD, which has publicly supported Cathay Pacific's applications for scheduled and charter services to Beijing--seem solidly entrenched in conflicting positions.

Government-level aviation talks in Beijing last week ended inconclusively, and no date for resumption has been set.

A CAD statement yesterday said it would be "premature" to approve Dragonair charters to the two Chinese cities until the government-level talks reach a conclusion.

Aviation sources, meanwhile, said the next round is likely to be held in November, although there is no guarantee the session would be conclusive.

Air service negotiations between other countries have been known to drag on for years.

Dragonair's chief executive, Mr Stephen Miller, yesterday expressed disappointment at the CAD move and said his company would not give up the fight.

"I can't even think of a word which sums up my feelings," he said.

"There is an acknowledged demand for more services to Beijing and Shanghai," he added.

"We have approval in principle from the Chinese authorities. We have an aircraft and we have a crew. But we're still not allowed to serve the Hong Kong public."

Mr Miller said one of CAD's two original objections to Dragonair's charter application--the extraordinarily high level of frequencies--had been satisfied.

"We went to them on Monday and said we wanted to discuss a level with which they would be comfortable," he said.

Observers say the Chinese authorities, which conveyed their approval in principle of charters to China in a letter to Dragonair's chairman last month, are unlikely to soften their stance on similar services by Cathay.

A spokesman for the Swire subsidiary yesterday declined to say whether Cathay had resubmitted its application to Chinese authorities in light of the talk's failure to lead to permission for scheduled services.

"Cathay Pacific hopes to be able to continue the current once-a-week charters to Beijing," he said.

The spokesman added Cathay had no other comment on yesterday's CAD decision except to say "we hope an early date for the next round of talks can be agreed as soon as possible."

He also denied Cathay had been in contact with the local head of the NEW CHINA NEWS AGENCY, Mr Xu Jiaturun, who is reported to have been spurred, by concern over the appearance of a Sino-Hong Kong rift, into sending a letter to Beijing to ask for an explanation of the Cathay rejection.

A spokesman for the agency refused to confirm or deny the sending of the letter.

Yesterday's decision leaves British-registered carriers with only two weekly services to Beijing--a British Airways flight from London via Hong Kong and the single weekly Cathay charter.

It also leaves Dragonair without any substantial business except the occasional weekend charter flights it has been operating to Malaysia.

The airline's Boeing 737 aircraft has been sitting idle on the Kai Tak apron for most of the time since it was delivered in June.

Dragonair will have a chance to present its case for licences to operate scheduled services to eight Chinese cities when the Air Transport Licensing Authority (ATLA) meets--probably in November.

But the decision of the ATLA, an independent statutory body which regulates air services from Hong Kong, is unlikely to have any immediate practical consequences.

Any licences for scheduled services to China granted by ATLA would be virtually useless without Chinese official permission for a British-registered carrier to operate the routes.

CSO: 4020/367

HONG KONG MEDIA ON CHINA

HEARING ON AIR ROUTE LICENSES SET FOR LATE OCTOBER OR NOVEMBER

HK050615 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 5 Sep 85 p 1

[Article by Robert Mayerson]

[Text] The battle for Hong Kong's skies will culminate in a face-to-face confrontation before the Air Transport Licensing Authority [ATLA] late next month or in November, Mr Justice Penlington told BUSINESS NEWS yesterday.

The High Court judge, who chairs the independent statutory body charged with approving airlines' licences to operate air routes from Hong Kong, said the hearing was likely to be held in public.

It is tipped to see a dramatic clash over coveted China routes among airlines backed by the Swire group, British Caledonian Airways and high-placed Beijing officials.

ATLA will consider new routes from Hong Kong to China, with four carriers-- Cathay Pacific, Dragonair, Caledonian Far East and Air Hong Kong--likely to be represented, Judge Penlington said.

"It's much easier to hear all the applications at once," he added.

Although British, Chinese and Hong Kong negotiators in Beijing are currently reviewing the government-to-government treaty which covers air links between British territory (including Hong Kong) and China, those talks are not directly related to the ATLA process.

The licensing body may grant approval for airlines to operate routes for which no air rights exist.

But Judge Penlington said: "There's no point in granting licences if there's no way they can be taken up. We take into account the question of whether rights are available."

Nevertheless, he said ATLA would not postpone its hearing in the event the Sino-British air talks fail to reach a conclusion before the hearing date.

Dragonair has applied for rights to operate scheduled flights to eight Chinese cities from Hong Kong, including Shanghai (now served by Cathay) and Beijing (connected to Hong Kong via British Airways).

Caledonian Far East, the British Caledonian subsidiary which has announced plans to set up a Hong Kong-based carrier with local equity participation, also said it would apply to serve Beijing, Guangzhou and Hangzhou as well as Tianjin, Guilin and Kunming.

Caledonian Far East and Cathay lodged official objections to Dragonair's original application, which was published in the government Gazette on July 19.

Oriental Pearl Airways, which said it would be flying under the Air Hong Kong name, decided not to object.

Dragonair later discovered it had misread the rules, and withdrew and resubmitted its application. The official period for filing objections expires tomorrow.

Oriental Pearl's chance to be represented at the hearing appears to depend on the timing of the long-delayed delivery of its first aircraft.

The ATLA hearing will cover only scheduled services. A recent clash involving Cathay and Dragonair involved charter operations to China which are governed by approval from the Civil Aviation Department and Chinese authorities.

Judge Penlington said yesterday the timing of the ATLA hearing would probably [garble] about two months after the expiry of the objection period, depending on the availability of a suitable venue.

ATLA has about 15 members, he added, but a panel of seven will probably be chosen to oversee the hearing.

The group's members include lawyers, accountants and businessmen. There are no representatives of government or the aviation industry.

CSO: 4020/367

HONG KONG MEDIA ON CHINA

CHINA'S BANKING SYSTEM CHANGING UNDER OPEN DOOR POLICY

Hong Kong TA KUNG PAO in Chinese 19 Aug 85 p 1

[Article: "Banking System Changes Under Open Door Policy; China's Financial Market Restored; Much Credit for Private Business; Stocks and Bonds Issued; 300 New Organizations Created"]

[Text] (XINHUA dispatch from Beijing 18 Aug 1985) LIAOWANG WEEKLY reports that the call to open a financial market has become greater and greater, and that a Chinese money market has begun to grow.

In the foreign news section of this weekly, which is due to come out tomorrow, the following main aspects of the current situation in China's financial market are listed:

1. China's monolithic banking system is being gradually dismantled. Under the Central Bank, specialized banks have been set up, and various non-banking financial organizations such as trust companies and leasing agencies have been allowed to exist. According to incomplete figures, in addition to the 260 trust and investment companies already set up under the approval of the Central Bank of China at the provincial, municipal and autonomous region levels, there are nearly 300 different types of financial organs at the provincial, prefectural and county levels or sponsored by private capital that have been established but have not yet received approval. For example, in addition to its People's Bank, Industry and Commerce Bank, Bank of China, Agricultural Bank, Construction Bank, and the trust departments of insurance companies and industrial/commercial banks, the city of Wuhan has organized and established 11 urban credit agencies.
2. Since last October China has permitted inter-bank short-term loans. Interest rates are to be decided by both parties according to supply and demand. Under the past top-to-bottom hierarchical system of administration, when the various specialized banks wished to issue needed funds, they could only apply for money from the local bank branch, and the local bank branch could only apply from the main branch. There were no horizontal connections among the specialized banks, which led to inefficiency in the utilization of public funds. Once inter-bank short-term loans were permitted, yet another fulcrum was provided to promote the formation of a financial market.

3. Beginning in April of this year, the practice of extending discounts on promissory notes has been popularized throughout the country. Implementation of this measure has contributed significantly to invigorating enterprises and increasing their autonomy.

4. The practice of the state extending credit has been restored after a hiatus of nearly 20 years. Not long ago the Central Bank of China announced that individuals or enterprises in possession of national treasury bonds could grant discount or mortgage loans to banks [sic]. This signifies the increase of the market element in the credit system.

5. In the last few years the issuance of stocks and bonds has spread to both city and countryside, improving the ability to raise more public funds.

In addition to this, the existence over the last few years in the economy of the vast urban and rural areas of free private loans among the people, the invigorating of commercial credit and the relatively rapid development of trust companies and other such phenomena, have all demonstrated the need in China's current economic life for the formation of a financial market, and the existence at the same time in that economic life of basic elements necessary for its (the financial market's) formation.

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CSO: 4006/912

HONG KONG MEDIA ON CHINA

HONG KONG PAPER REPORTS ON FUJIAN DEVELOPMENT PROGRESS

HK130616 Hong Kong SOUTH CHINA MORNING POST in English 13 Sep 85 p 10

[Article by Ophelia Suen in the column "South China Beat": "Fashion Blossoms in Mao's Shadow"]

[Excerpts] Fuzhou and its citizens are clearly prospering under China's open policies.

Clusters of small outdoor fashion stalls are mushrooming around the Wuyi Square in the central area.

And colourful summer fashions comparable to those found in Mongkok's Tungchoi Street are everywhere.

A red star flag flapping against the sky in the middle of the square gave its approval to these small capitalist enterprises.

Even China's late Chairman Mao seemed enthusiastic. Across the street his huge white statue looks at a slogan saying: "Revitalise economy."

Fujian is going all out to woo Hong Kong money--whether it be from investors, tourists or returning ethnic Chinese.

Within the space of a week in June, it rolled down its red carpets twice for three top Hong Kong officials--Chief Secretary designate Mr David Akers-Jones, Political Adviser Mr John Boyd and Immigration Director Mr Alan Carter.

The province is also catching up with its Guangdong big brother and has the fifth largest group of Chinese investors from Hong Kong.

Its Hong Kong agent, the Fujian Enterprises Co Ltd, is keen to start huge expansion plans.

A recent film jointly produced by a Hong Kong movie company and the Fujian authorities highlighted many of the province's scenic spots.

Xiamen is likely to have its own special economic zone [SEZ] newspaper.

This will be possible after a major reshuffle and expansion of the existing XIAMEN DAILY.

The precise details are still being worked out although the central government has approved of the move in principle, according to a SCM POST source.

The project will also significantly enlarge the scope of the XIAMEN DAILY which does not circulate outside the special economic zone.

The future SEZ newspaper will circulate in three main group areas--Xiamen, Hong Kong and Taiwan; Xiamen and the other three SEZs, as well as Xiamen and the open coastal cities.

More staff will have to be hired and some are likely to be stationed outside Xiamen.

A Shenzhen Special Economic Zone newspaper currently reports on development in Shenzhen and also on events in Hong Kong and Macao.

Meanwhile, Zhuhai is expected to launch its SEZ newspaper by next month. [passage omitted]

Fujian is determined to develop its Mawei port, covering an area of 4.4 sq km, along the lines of its counterpart in Guangdong--the Shekkou Industrial Zone.

Beijing has given the go-ahead to develop the port into an economic and technological district. It has the potential to expand over the entire Minjiang Delta.

It is also a major Chinese naval base about 16.4 km from Fuzhou City and 146 nautical miles from Kaohsiung in southern Taiwan. It is about 492 and 440 nautical miles from Hong Kong and Shanghai respectively.

The port has a wharf with six berths--two berths with a capacity of 10,000 tonnage, three berths of 5,000 tonnage and three berths of 3,000 tonnage.

Its handling capacity in 1983 was 2.3 million tons.

A highway from Fuzhou to Lianjiang goes through Mawei.

The section from Fuzhou to Mawei is being broadened to upgrade it.

Port development also includes water and power supplies, commodity inspection and customs services, in addition to post and telecommunications facilities.

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BRIEFS

HONG KONG COMPANY AWARDED CONTRACT--Shin Ding Ja Aviation Services Co Ltd has been appointed the sole agent here for Industrial Aviation Service Corpn [IASC], an offshoot of the Civil Aviation Administration of China. IASC has 70 aircraft and helicopters with modern aerial photographic and remote sensing equipment. A spokeswoman for Shin Ding Ja said the company would help IASC buy new aircraft and co-ordinate aviation services provided by overseas firms. It would also arrange helicopter services both for tourism and industrial purposes and help promote a business relationship between Hong Kong and China in aviation services. Shin Ding Ja is also the liaison office for CAAC Helicopter Co, China Nanhai Oil Joint Service Corpn and China Capital Helicopter Corpn. The spokeswoman said Shin Ding Ja started operations in May and would be officially opened on September 27. [Text] [Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 13 Sep 85 p 3 HK]

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HONG KONG ECONOMIC TRENDS

AUSTRALIAN MINISTER ON HONG KONG, TRADE WITH PRC

OW091657 Beijing XINHUA in English 1630 GMT 9 Sep 85

[Text] Hong Kong, September 9 (XINHUA)--"Hong Kong will continue to offer positive expansion opportunities for Australia, not just for direct exports, but as a catalyst for trade with China and as an entrepot port for trade into the North Asian region generally," said Christopher Ward, Australian trade commissioner in Hong Kong today.

Speaking in a seminar on the Australian market for Hong Kong manufacturers and exporters here, Ward expressed confidence in Hong Kong and attributed the current mood of optimism for Hong Kong's future to the current capital in-flow and the large infrastructural projects which are underway.

Hoping to be regarded a member of the Asian community, Australia places very great significance on the continued smooth development of trade with Hong Kong businessmen--"particularly the Chinese people"--into the next century, he said in the seminar, organized by the Hong Kong Trade Development Council (HKTDC).

"From an Australian perspective, Hong Kong is an important and growing market for exports and a significant potential investment partner," and for some years Hong Kong has enjoyed a favorable balance of trade with Australia, said Ward.

Earlier, an Australian consortium, with the assistance and support of the Victorian government, was awarded the 1,000 million Hong Kong dollars (128 million U.S. dollars) contract for Hong Kong's light rail transit (an electrified tramway system for rural Hong Kong), defeating competitors from Belgium, Canada, Japan and the U.K.

The contract will involve exports from Australia valued at more than 300 million Hong Kong dollars (38 million U.S. dollars).

Trade promotion campaigns worth 2 billion Hong Kong dollars (256 million U.S. dollars) are scheduled for the next 12 months on products such as medical, dental and surgical equipment, electronics and telecommunications equipment and fruit and vegetable products, Ward disclosed.

Last year, Hong Kong exported 3.82 billion Hong Kong dollars (489 million U.S. dollars) worth of goods to Australia, its seventh largest market, while Australian exports to Hong Kong were worth 3.34 billion Hong Kong dollars (429 million U.S. dollars) in 1984.

Major items exported to Australia include textile, yarn and fabrics apparel, toys, household equipment, plastic products, travel goods, printed matter.

5 percent of Hong Kong's foodstuffs is supplied by Australia, its fifth largest food supplier. 900 million Hong Kong dollars (115 million U.S. dollars) worth of Australian food and beverages were exported to Hong Kong last year.

Chairing the seminar, HKTDC's trade services Senior Manager James Law noted that the scope for expanding trade, investment and business cooperation with Australia is very great.

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SEMINAR URGES HONG KONG TECHNOLOGY BREAKTHROUGH

OWO41823 Beijing XINHUA in English 1439 GMT 4 Sep 85

[Text] Hong Kong, September 4 (XINHUA)--Hong Kong's science and technology circles must take the initiative in making breakthroughs in exploring and developing new ideas to cope with the changing situation and face future competition.

Y.W. Chen, a professor at the Chinese University of Hong Kong and president of the Hong Kong association for the advancement of science and technology, made this remark here yesterday at a seminar entitled, "Hong Kong Science and Technology in the Face of 1997."

He said that Hong Kong's modernization program had scored gratifying results over the past two decades, yet its science and industrial development were still confined to the traditional concepts of import and export, namely, introducing technology, tools and raw materials from outside to produce with high speed and efficiency manufactured goods for export through employing local workers and expertise.

Since Hong Kong has entered the transition period to 1997, the center of gravity of the relations between Hong Kong and other regions will gradually move from Britain to inland China and at the same time, the center of the world economy is also slowly shifting from the west to Asia, he said.

Under such conditions, he stressed, Hong Kong's science and technological circles must face the challenge with new ideas and new practices.

He suggested that Hong Kong establish its own scientific and technological research base and scientific standards system, establish a college of science and technology and enhance technological and scientific exchanges with other provinces of China.

Speakers at the seminar noted that, in addition to its close relations with the advanced countries, Hong Kong is also backed by the Chinese mainland's broad basis of scientific research, natural resources and vast market. Therefore, Hong Kong has a bright future in scientific and technological development.

HONG KONG ECONOMIC TRENDS

BANK FORESEES RECOVERY OF HONG KONG EXPORTS

OW061954 Beijing XINHUA in English 1840 GMT 6 Sep 85

[Text] Hong Kong, September 6 (XINHUA)--Aided in part by an extended period of modest global economic growth and inflation, Hong Kong's exports in 1986 are likely to recover from their current decline, a standard [garble] bank report says here today.

The report states that two "major imbalances" which have been troubling the world economy--the U.S. dollar's recent strength and the U.S. budget deficit--"have begun to unwind in recent weeks." The dollar has weakened decisively, and the U.S. Congress has passed a resolution to reduce the budget deficit from 4 percent to 2 percent of GNP over three years.

Consequently, it says, U.S. inflation has not surged, and there has been no panic flight of capital out of the U.S., driving interest rates up.

Lower interest rates, together with the expected improvement in trade balance due to a weaker U.S. dollar, should help to sustain U.S. economic growth during the upcoming period of fiscal austerity, it says.

The report says these trends in the U.S. are complemented by an easing of interest rates in Europe, and that governments in Europe and Japan are being pressured to relax fiscal policies in order to stimulate domestic economies.

As for Hong Kong, inflationary pressure generated by a weaker U.S. dollar is likely to be limited unless the U.S. currency falls much further.

The report points out that the current low unemployment rate (three percent for the second quarter) in Hong Kong also suggests that inflation here could rise if the economy picks up momentum next year.

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HONG KONG ECONOMIC TRENDS

BRIEFS

TRADE OFFICE TO FIGHT JENKINS BILL--The trade department has announced a major reshuffle of its Washington office in a move to beef up its fight against protectionism. Hong Kong's Commissioner in New York Mr (Paul) Dorward has been ordered to Washington and an extra man is to be sent out from Hong Kong. The new arrangement is the first in a series of steps to counter protectionism which has been agreed by the textile advisory board. The others have not yet been made public. The acting Director of Trade Mr Donald Chang explained how the reshuffle came about. [Begin recording] [Chang] As a result of our recent review of our resources in the United States and in Hong Kong, in the light of the increasing threat to Hong Kong's trade imposed by the Jenkins Bill, the textile advisory board has instructed its standing committee to make recommendations. One of the recommendations is that we should look at our resources in the United States and how it could be arranged and strengthened. So Mr Dorward's move from New York to Washington is one of the moves which we think will be essential in coordinating our increased lobbying and other activities which are going to take place in Washington in the weeks and months ahead. [End recording] [Text] [Hong Kong Domestic Service in English 0500 GMT 6 Sep 85 HK]

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